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# CO-OPERATIVE PROBLEMS OF INDIA

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*In Memory of*

**Shriyut**

**RAMDAS PANTULU**

**The Non-official Leader of our  
Co-operative Movement**

*for*

**Two Scores and Odd Years.**

## PREFACE

A new world will come because the old is breaking to pieces. But the new world will be better or worse according to the power or weakness of the cooperative spirit in the hearts of men—in other words according to the power or weakness of their cooperative movements

We all want to rush past or whizz to our destinations in the car, the railway and the aeroplane. We all want to benefit by the telephone, the telegraph, the radio and the television. We all want to cover ourselves with khaddar, mukhmal and woollen goods. We all want to live in ease and comfort till death. We all want to satisfy the sex urge. But none wants to be a victim of syphilis and gonorrhoea. None wants to face a depressed feeling and discomfort in the movements of hands and feet and the whole body. None is prepared to court headache, stomachache and foul body-odour. None wants to be coerced, oppressed and exploited. None wants to be left behind, injured, crushed and bombarded.

If each of us has this feeling, he must also certainly feel that he cannot have his way unless he amicably allows others to have their way. Consequently it appears inevitable that we must associate, but this association must not be—is not to be—for the protection and promotion of merely personal and sectional interests.

Unity is to be the rule. There must be equal consideration for all the members. The association must be open to all who can be benefitted. There should be no place for exclusiveness, sectarianism, sectionalism or any other form of vested interests. For this, the will to dominate others must be banished through democracy. But in order that one may be a democrat, he must get swayed with a feeling of comradeship, friendliness and brotherhood. This requires a personal knowledge of the people and the strong will not yield to complacency when satisfactory results begin to be achieved. And by democracy we do not mean

merely political democracy. Political democracy of our time is a farce. The best democracies of today may be rightly dubbed as pluto-democracies because if the elected legislate against high finance and big business they tend to be pulled back and pulled away by the invisible thread of economic power. Today sovereign power, dominance and justice go with high finance and big business. To escape this situation there must be established economic democracy through equity.

*Equity* in the sense of fair play and fair price must therefore be adopted. There should be left no place for the 'tricks of the trade'. The customers must not be given a wrong value or wrong conception of value. They must be told what a commodity is actually worth. The technical expertness of the professional specialist should be at the service of the layman so that he would not suffer on account of technical ignorance. With a little extension of the interpretation of equity, it seems to ban the production of old and rotten wines in new bottles with new labels.

In general, the users must have the *liberty* to choose and use what they like and to manage their association in whatever way they decide to. But liberty does not indicate mob-rule, anarchism or irresponsible self-assertion. Autonomy does not mean uncontrolled cooperative enterprise. A restriction is placed by association which demands that unfettered local autonomy must be ceded for the general economic good and the elimination of waste. In other words, *economy* is necessary. The workers must be told—they must try to realise it themselves too—that efficiency is to be achieved. They must not only have a knowledge of the objective and the methods to reach it but they must feel the *responsibility*. They must regard their work as something more than a perfunctory effort to obtain their livelihood.

The realisation cannot be left to the workers. Something more must be done to supplement the employer-employee relationship to secure sustained enthusiasm in duty and work, something to change time service into social service. *Publicity*, open work and education constitute the solution. Publicity in regard

to cooperative work should enable the workers to expose everything incompatible with the best interest of the group. Publicity and education if correctly undertaken can—as happened in Russia—make the individuals highly social-conscious and use their individuality for the benefit of the masses.

To sum up there must be an association which is prepared to extend its benefits to all. It must be controlled democratically and must enjoy autonomy which is limited only by considerations of economy and wider economic welfare. Honest service and not profit must be its aim so that the annual surplus shall be returned to those who brought it in. It must spend and arrange for proper publicity and education to abolish deception and misunderstanding and to make the members and workers—nay the people—social conscious responsible and altruistic.

In other words a society must have an economic function. There must be open membership and democratic control. A limited interest has to be allowed on capital and the surplus has to be distributed in proportion to the members' dealings with the society. And these are the very conditions set down by the International Cooperative Alliance for its membership. The I C A is no doubt in favour of the provision for cooperative education, sale of pure unadulterated goods (i.e. honest service) and no credit sales (which is an aspect of economy). In our analysis above politics and religion do not come in. The Alliance also does not concern itself with politics and religion. It holds the view that the society can adjust itself to all political and religious situations. This is amply demonstrated by the fact that cooperative societies are flourishing in U K U S A and U S S R.

May it not then be said that the new world would be a better world if it is based on cooperation?!

The cooperative movement must therefore be progressed and cooperative education must be spread. Hence these essays. I must acknowledge that the above reasoning and the idea came after a study of **A SOCIAL PHILOSOPHY OF COOPERATION** by J J Worley.

It is not claimed that the essays collected here form a full and coordinated treatment of the principles of cooperation or of the cooperative problems of India. In some, the details of a society are discussed; in some they are explained, and in some, only certain important features have been described or summarised. It is also true that our governments have in many cases already taken progressive steps and that these may not have been indicated fully in these pages. Yet it has been felt that even so this shall be of help to many.

I must admit that some portions of the book appeared in leading journals and magazines of India, though they are included in the book in revised forms.

I must also admit that the printing mistakes in the first four chapters of the book have been due to a certain complacency on my part and to the haste on the part of the publishers.

I am thankful to Mr. J. Warhase, Emeritus President of the Cooperative League (U.S.A.) for having consented to write a foreword.

I must also acknowledge my debt to my students Syt Jagdish Narain Singh, M.A. and Syt Jagdish Prasad Sangal, M.Com., who allowed me to use freely the notes which they had taken in my lecture classes and to Syt Vishnu Saran Agarwal, M.A., B.Com., at whose residence in Ramnagar (Distt. Nainital) a part of the proofs was seen.

Mahesh Chand



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## CHAPTER I

### CO-OPERATION—A DEFINITION

Co operation litetally means 'working together'. In this form we have been co-operating ever since the world began. Not to say of the human beings even the animals and the birds have been known to co-operate to achieve certain objects in which they have a common interest. But of late this co-operation has been taking a new shape and form in the economic field. The industrial revolution and the extreme exploitation by the usurers and employers have lead to a new economic movement known as the co-operative movement. With the present condition of the various economic 'isms', it appears that the greatest good of the greatest number cannot be achieved thus. It is felt that an 'ion' must replace the 'ism'. But the 'ion' cannot bring material and normal success unless we take to it sincerely after having fully understood its meaning and implications.

It is true that the co-operative movement began with certain detailed characteristic features which must be true of an institution before it can be termed co-operative. But for correct understanding of co-operation certain essentials must be reckoned. One may work for the utmost development of oneself—Or one may rotally forget the self and work for the utmost development of others or one may work for a balanced development of both oneself and others. In other

words the sole guiding principle may be individualism, altruism or a balance between both. In short, the watchword may be 'I', 'YOU' or 'We'. For obvious reasons 'I' is insufficient for the greatest good of the greatest number. The weaker units do require the helping hand of the stronger or others—who are similarly situated. 'YOU' shall not be preferable because of two great dangers. Firstly, it may entail total 'self-forgetfulness' which is never wanted; also there shall be the danger of sudden reaction from extreme altruism to extreme individualism and back again. This would make life a series of violent and costly reactions. Secondly, every future genuine attempt at co-operation made by others may be doubted, and advances, which if sympathetically understood and appreciated would lead to valuable result for all, may be repelled. Hence 'WE' is the watchword left for us.

For a balanced development of 'I' and 'YOU', working together is essential. But teamwork is more difficult for personal objects than impersonal ones. Many shall agree about 'service to others', but if in a particular case one was to ask them to act in a particular way justified by the above mentioned motto, one may be faced with personal prejudices, objections and oppositions. Hence the structure, aims, functions, the detailed method of operation and technique must be devised carefully for the group (undertaking teamwork) after considering the members forming it. Although in certain cases a closed (compulsory) combination may be allowed, free combination is preferable. In technical language there may be voluntary and

open membership with the freedom of expression. But to avoid the possible resultant chaos and conflict there must be certain mathematical correctives (e.g. acceptance of the voice of the majority) and also a philosophy of life. The latter ought to lay stress not on the material income but on the uses made of it. In general, it seems desirable to have individual development of the units but there must be permanent federations and unions and periodical conferences.

A co-operative group invariably makes a start in the economic field. It combines freedom of personal action with the use of capital in a carefully controlled and highly constructive and fruitful way. The higher the development of the co-operative the higher is the place accorded in its programme to cultural and ideal values than to money and material values. Making a start as a small business society, it can expand and take over in due course such cultural and political functions as education, travel, health and courts so much so that a separate State shall not be required. A mayor of a Swiss city who was also the head of co-operatives realised it when he said: "After performing my duties as head of co-operatives I have nothing to do as a mayor." In other words a co-operative society can grow into a co-operative state or that even the State can be run on co-operative lines.

Fundamentally then a co-operative society is an economic undertaking wherein the members have a direct common interest. Their immediate end is to promote their domestic economy or the occupational economy but they are neither guided

by the profit motive nor the money-making motive  
The membership is voluntary and free and all have  
a free and equal voice in the control

### DEFINITION

To put it in the form of a definition enumerating the important characteristics it may be said that a co-operative society is a union of individuals—who generally join voluntarily established on the basis of democracy freedom and universality for the purpose of joint performance of economic acts of common interest to improve the material and moral position of its members using the force of honest cash-and-carry service and mutual help which may be backed by Government support—the net surplus being applied partly for general good and efficiency and partly shared in proportion to the business done by each member with the society and not in proportion to the paid up capital which is allowed only a moderate rate of interest

Strictly speaking it is not a definition because it is not self-explanatory A major portion requires explanation

### MEMBERSHIP

However it may be first noted that the membership is voluntary and open to all having a common interest Nobody is compelled to become and to continue to be the member of a co-operative society, because compulsion does not, in general carry sincerity of interest Full loyalty, interest and co operation can come only from self-realisation of the need for co operative membership

Compulsory membership may be allowed sometimes for a minority of persons if they come from the same group as other members if it is to be in their interest and if their non inclusion shall undermine the success of the society

An example may be a co operative society marketing the produce of the agriculturists. If some of the agriculturists of the area of operation of the society do not join it it is possible that for some time the established private interests may pay substantially higher prices to them. And under certain low economic condition the agriculturists are apt to attach greater importance to higher prices available today and are less likely to realise that this is a temporary move to wreck the society and check them from reaping the benefits of co operative activity. Hence the members are likely to break away. To nip the possibility of such trouble in the bud it may be made compulsory for the remaining agriculturists of the area to become members of the society<sup>1</sup>

## CONTROL

Secondly, the members join as individuals on

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1 It may be contended by some that legally compulsory membership for all in the area of operation of a society may also be allowed for sometime in order to hasten changes in deep rooted habits of the people—habits which are dangerous and serious obstacles to progress and prosperity. But such compulsion must be relaxed as soon as possible. Russia perhaps had such people India perhaps has. But such compulsion is highly dangerous and calls for the greatest care wisdom and educational drive

the basis of democracy. They do not have voting rights in proportion to the shares held by them as is the case in a joint stock company. This is so because in a co-operative society a rich person cannot be allowed to enforce his voice merely because he is rich. All have equal voice. Each member has one vote. What is more important each member must have full opportunity to voice his feeling and exercise his voting power. This creates some difficulty where the members are very many in number and are spread over a wide area. Since a member is called upon to vote his opinions on the resolutions presented at the general meetings which are usually held annually the problem is that the resolutions must be presented to them for voting every year. One solution may be that regional meetings may be held. At each regional meeting the resolutions may be discussed and opinions taken. Then a few delegates may be elected to carry those opinions to the meeting of the delegates from all regional meetings. In other words the annual general meeting may take the form of an annual meeting of the delegates. The delegates' meeting may elect a managing committee which, in turn, may appoint a Board of Directors under its own supervision.

The other essential of a democratic control is that the decisions of the members should not be taken on problems that involve or affect the persons outside their area of operation. Thus it would be un-democratic to raise prices of commodities sold to all with a view to increase profits (net surplus).

## FREEDOM

Thirdly, there is an air of freedom and universality about the activities of the society. The members are free to act in any way they like in matters outside the purview of the society. But they are not expected to fall a victim to sectarianism and cliqueism. Their attempt should be to increase continually the number of persons enjoying the benefits of the society. The service of the society is to be universal not only in theory but in practice also.

In the short period, for easy progress membership may be restricted to persons from the same caste, creed, religion or occupation, so that the members shall have more common economic ends. But sectional developments must be harmonised by having unions and federations.

Restriction to membership may also be applied where economic circumstances do not allow use of more persons *e.g.*, in a productive society. But a new member must always be admitted to all the privileges enjoyed by previous members at once.

## ACTIVITIES

The activities that are to be undertaken by the society must be such as shall be in the interest of all the members. Any activity in which all are not interested would not generally be undertaken. But where a minority lacks the interest, it shall be preferable if the minority withdraws from the society. As regards new applicants, they ought not to be admitted to the membership if they do not



have a common interest or if their real interest clashes with that of the society. If this convention is not followed there shall invariably develop indifference and deliberate subversive activities.

## SERVICE

Fifthly the service offered by the society must be thoroughly honest. Honesty is the bedrock of success of every economic activity. The society must have and must give full weight and the best available quality as also maintain correct accounts. Partly for honesty, partly to avoid locking up of finance and partly to curb the habit of being a spendthrift the society should purchase and sell for cash and should not postpone the recovery of its dues beyond the due dates.

## EMPLOYEES

Sixthly the activities are to be carried on jointly and mutually by the members themselves. It is not contemplated to employ non members for carrying on the daily activities at least when a small beginning is made. Working through paid non-member employees at once creates a conflicting interest in the society. It is quite likely that the employee may become insincere and inefficient in order to make money quickly. It is therefore preferable to have member employees. As the co-operative expands it may not be always practicable. But whoever be the employees—members or non members—the co-operative would be taking the wind out of the sail of labour disputes if it grants wages and advantages which obtain in comparable

occupations locally or in the nearest comparable area. Besides, to keep up efficiency, the workers may be allowed a bonus out of the net annual surplus.

It has to be realised that there is no conflict between the co-operative interest and the interest of the workers. The co-operatives have no profits in the popular sense—in strict economic sense, no windfall profits accruing to them. Whatever net surplus does accrue is in general distributed among those who brought it in. There is therefore little urge to exploit the workers. However, if in spite of the wage policy already mentioned, labour conflicts arise, the remedy shall lie in patient and impartial deal by the management, and increase of education among the workers.

## CO-OPERATION AND THE STATE

Seventhly, the method of operations of the society gives the indication that State support is not required. In fact, the way in which the States of the world have acted during the past hundred years leads one to conclude that it would be dangerous if the co-operative movement is placed under the guardianship of the State or if it accepts and works the policy laid down by the State.

It does not necessarily follow that the State should not help, nor that the State support would be invariably not accepted. In fact, one can argue that the State must help. The State helps the private economic enterprise in many ways. For justice and fairplay, the co-operatives muster strength to fight the exploiting element of the private enter-

prise If the State is convinced of the aims and methods of Co operation, it must lend its support—rather greater support—to the co-operative movement of the country The State can legislate constructively It can give fiscal and financial aid It can place the services of its experts at the disposal of the co-operative movement It can provide publicity and guidance and can suggest future programmes But it ought not to dictate or fully officialise the movement

### THE NET SURPLUS

Lastly, attention must be paid the problem of using whatever is left in the society at the end of the year after meeting all necessary expenses relevant to the business (including depreciation and reserve) Ordinarily in a joint stock company the surplus goes to the shareholders in proportion to the capital provided by them It is not so under the co-operative philosophy Here we return to each member what accrued to the society on account of his dealings with the co-operative Hence the surplus cannot be distributed among the members in proportion to the share capital provided by them This does not mean that capital is not to get a fair return a moderate rate of interest is allowed on capital out of the net surplus A portion of the balance must be utilised for some general beneficial activity to give some examples, mention may be made of general education, reading room, library, games, recreation, medical facilities and sanitary arrangements A portion may also be used for granting a bonus to the employees and workers of

the society in order to encourage them to take greater interest in the society. The rest of the net surplus may be distributed among the members in proportion to their individual transaction with the society. Sometimes the non-member customers may also be granted a share provided this shall help expansion of the movement. It is not necessary that a person's share in the net surplus may be paid in cash. It may be retained in the form of deposits or issued in the form of paid up shares of the society.

### ECONOMIC WEAKNESS

There are certain features which are also sometimes mentioned in definitions and explanations of Co-operation. A co-operative is said to be an association of the 'weak' or 'economically weak'. Because a co-operative is an economic enterprise it is incorrect to say only 'weak' 'economically weak' is a more apt phrase. But the phrase should not lead us to conclude that a co-operative cannot be formed by the rich. It is no doubt generally unlikely that those who commandeer a large purchasing power shall join co-operatively to save some purchasing power. But it is not altogether impossible. If not the need for economy, the need for improving quality of service may induce the rich to join hands in a co-operative society. And it would be still correct to say that they did so because they were economically weak—that they failed to get the desired stuff for the price they paid. But their organisation may not have the other essentials of a co-operative society. They may not have the system of 'one man, one vote' or the surplus may not be distributed in proportion to the transaction done by

each with the society. In fact, even non-co-operative combinations are due to the members being economically weak in some sense.

## COLLECTIVE RESPONSIBILITY

A co-operative is also at times said to have collective responsibility for the members and collectively owned funds. The former is misleading. It does not make it clear whether each member is responsible for the liabilities of the society to the same extent or to different extents. It is possible that each member may be liable up to, say, one hundred rupees or up to the value of shares subscribed or up to a multiple of the value of the shares subscribed or up to an unlimited extent. If the phrase is to indicate that the profits and losses are ultimately borne by the members, that is in general true of non-co-operative associations also.

## COLLECTIVE OWNERSHIP

But collective ownership of funds has an important significance. In case of liquidation the general funds of the society cannot be distributed among the members. On liquidation, the reserve fund is in general considered to be available for paying off the creditors of an association. But in a co-operative society the indivisible reserve fund is not available even to the creditors; it can only be used for charitable purposes or for help to establish a new co-operative society. The ordinary reserve fund can be used to meet the liabilities of the society. This is so even where there is only one reserve fund. The fact remains that in no case the collective funds are

available for distribution among the members.

In view of the special significance of the reserve fund, it may be laid down by a State legislation that a certain percentage of the surplus (which is wrongly called profit) must be appropriated to reserve

### CLASSIFICATION OF CO-OPERATIVE SOCIETIES

A proper classification of the cooperative societies is essential for three reasons. Firstly, it facilitates the study of the principles that should govern the working of the different kinds of societies. Secondly, it enables an easy study of the progress made by the different types of co-operative activity in different regions through independent and comparative study. Thirdly, it can help the propagation of certain theories or notions

Each of the reasons given above would lead to a different classification. To take up the last, if importance is to be laid on consumers the societies may be divided into consumer cooperatives, housing societies, occupational societies, agricultural societies etc. If industrialisation is to be emphasized, it may be preferable to classify the the societies first into agricultural and non-agricultural cooperatives. If the classification is to serve the purpose of indicating the historical development of the cooperative societies, that too is possible.

But for an impartial and factual study, the above methods of classification may not be apt. For this, every society has to be counted and classified in such a manner as would permit inter-regional

comparisons. So far as the groups are concerned, they may be more in the case of smaller regions, but for consolidated data for a whole region or country we need certain broad principal classes properly defined, and certain agreed conventions for classifying hybrid cooperatives.

The regional classes should contain only the cooperatives and not the non-cooperatives as well, as is done in Czechoslovakia and Lithuania where credit societies are included under 'banking and credit' and other cooperatives under 'commerce'. Also in order to make the classification comprehensive and all embracing, and to avoid double counting, it is not preferable to allow different departments to issue statistics of cooperatives engaged in activities with which they are concerned. If different departments issue statistics it would call for coordination. The work could be handed to a general statistical staff which may also do the work of primary classification. But still the danger shall be that of double counting. It would therefore be safe to have a separate department for the cooperative societies. Two other precautions may be noted—the need for a special legislation for the cooperatives and the need for registration formality in the law. Neglect of these results in insufficient collection of information and absence of uniformity of returns. These have made it difficult for the cooperative service of the International Labour Organisation to compile international statistics. Because of comprehensive statistics from some sources and of more detailed statistics regarding the member cooperatives from central cooperative

organisations (which statistics would not agree with the official statistics) and because of the drawbacks already noted the I L O has formed only a small number of wide and incomplete though sufficiently homogenous groups. The desirable end is as already stated above.

It may however be noted that in order that the official statistics may be completed and corrected by comparison with those provided by cooperative organisations it should be borne in mind as to what types of cooperative usually federate. Thus if a federation divides consumers societies into a number of subheads and if in the official statistics Consumers Societies form one of the principal heads, then the total of the federation figure must equal the official figure and if it does not the necessary correction can be made.

### INTERNATIONAL STATISTICS

In regard to international statistics four possible classifications may be examined. Dr Fay classifies the cooperatives as given below —

- ✓(1) Cooperative Banks
- (ii) Agricultural Societies
- (iii) Workers Cooperative Societies and
- (iv) Cooperative Stores

Dr Faquet suggests the following classes —

- (1) Consumers cooperative societies ✓
- (2) Housing societies
- (3) Occupational cooperatives excluding agricultural societies but including urban credit societies



(4) Agricultural societies including the credit societies and

(5) Various

The international Institute of Agriculture Rome, has adopted the following classes —

(1) Credit

(2) Production

(3) Production and Sale ✓

(4) Purchase

(5) Sale

The fourth classification is as follows -

A Credit Societies

B Consumers Societies,

C Producers Societies,

D Insurance Societies,

E, Housing Societies and ✓

F Others

The classification given by Dr Fay does not include the housing societies and the insurance societies but from the point of view of co-operative development in the world it is essential to study the progress of these institutions separately.

In the second classification greater emphasis seems to be placed on consumers. It does not have a separate group for credit societies. In view of the special importance of finance, it seems incorrect to include the credit co-operatives and producers' (or workers') societies in one

The third system has no place for housing. Also

it considers insurance societies as something which can be taken as ancillary to one of the five forms. While purchase societies include both supply societies and consumers' stores the class 'production' may be merged in 'production and sale'. And the 'Sale' group may also be included therein since 'sale of members' produce is also a function of producers, the three groups could be together named 'Producers' Societies'. So the third system, as it is, is not suitable.

The fourth classification does not distinguish between the urban and the rural societies. But the rural societies do not have to follow principles very much different from those that guide the urban co-operatives. Whatever difference there exists can be noted while studying the different forms of societies. Also it seems unjust to have one class for agricultural societies and four or five for the non agricultural—which is more or less the same as urban—societies. If a distinction is made between the urban and rural problems, let there be as many classes for agricultural societies as for urban societies. If this is not agreed to, it will suffice to have a sub-head for urban credit societies' under 'Credit Societies' and for Agricultural producers' Societies' under 'Producers' Societies'.

### NATIONAL STATISTICS

The national statistics may be more detailed. In India we must distinguish between rural and urban co-operatives. The classification followed by the Reserve Bank of India is as given below —

A Agricultural societies—

1. Credit Societies

2. Purchase, and purchase and sale societies.
3. Production Societies.
4. Production and Sale Societies.
5. Others.

B Land Mortgage Banks

C Non-agricultural Societies—

1. Credit Societies.
2. Purchase, and purchase and sale societies
3. Production Societies
4. Production and Sale Societies
5. Others

D Insurance Societies—

1. Ordinary
2. Cattle.

This is a fairly detailed grouping, but it must be modified in view of the growing importance of the housing, marketing and multi-purpose societies. The five classes under 'A' and 'C' may be remodelled as follows —\*

1. Credit Societies
2. Consumers' Societies
3. Production Societies
4. Marketing Societies

\* It may be argued by some that it is also important that annual figures about weavers' societies, co-operative dairies, and better living societies should be made available. These no doubt have and shall have great importance for some years to come. The provincial reports about the co-operative movement must provide details about these. But I think that the work of coordination may better be undertaken by the All India Cooperative Institutes' Association and the results published in the Indian Co operative Review.

- 5 Housing Societies
- 6 Others.

Under each of these classes, the number of societies which are multi-purpose in nature may be indicated within brackets. This shall not only focus our attention on the necessary aspects of co-operation but facilitate compilation of international statistics.

At present the statistical statement relating to the co-operative movement in India shows the number of societies with limited and unlimited liability separately under each class. But unlimited liability has significance, if any, only in the case of credit societies. It is therefore unnecessary to continue to maintain the distinction in classes other than credit.

Besides the defective classification the definition of the sub-groups is also not exact and uniform with the result that while in one case a society shall be classified as production society in another case a similar society may be classified as 'production and sale society'. Again 'Purchase Sale' Societies include co-operative rice mills which should really be placed under production. The All-India Statistics has the group 'Purchase and Purchase and Sale'. It is no longer desirable to have it. It can become merely 'Purchase'. Of course it shall not suit our purpose because it will include, as it does even now, such societies as consumers store seed store and other agricultural-supply societies. The last two may also be classified as production societies. In an appendix to this chapter are given the definitions which may be supposed to apply to the groups in the cooperative statistics published.

by the Reserve Bank of India. A perusal would make the ambiguities clear. It is hightime that the defect be removed.

Thirdly, the classification followed by the Reserve Bank of India is not adhered to by all the provinces. Thus the Bombay Government has the following five groups—

1. Resource society which is formed with the object of obtaining for its members credit goods or services required by them.

2. Producers' society whose object is to produce and dispose off goods as the collective property of its members or to dispose collectively the labour of the members.

3. Consumers' society which undertakes purchase and sale of goods and performance of service to members and others the resulting profit being distributed among the members and customers according to the rules of the society.

4. Housing society in which the object is to provide the members with dwelling houses on conditions to be determined by its bye-laws.

5. General society including all societies not falling under any of the above classes.

This classification is evidently based on that given by Dr. Mash of France who recommended three classes viz., Resource, Production and Consumers'. Though the Bombay groups are more in keeping with the requirements of international statistics, it also suffers from the possibility of wrong classification. A society dealing with the

sale of a commodity may be counted under Resource or Producers' society, and a 'society' providing certain service to its members may be termed a Resource or Consumers' society. This apart, uniformity demands the same classification all over the country—Indian states included. Of course the statistics may be given in more detailed form in different respects by the different provinces in view of the important provincial problems.

Incidentally, another possible minor defect of classification may be mentioned. In the Reserve Bank Statistics about co-operation the consolidation of holding societies are included in the Production Group. By definition it is so even in U.P. as will be evident from Appendix two to this chapter. But when one refers to the statistics given in the reports of the U.P. Co-operative Department of say, 1940-41, or to the Reserve Bank statistics, they are not shown at all under Production.

The question of classification of the co-operative societies in India has been under consideration of the Reserve Bank of India for many years. Its proposals were submitted to the Registrars' Conference (Bombay) 1944 and have been referred to a sub-committee. They have not been made available to the public as yet. It is hoped that the problem shall not be left untackled for long.

In the end it may also be added that it is not sufficient to follow the classification only in respect of the number of societies belonging to the different classes. It should be applied also to the statistics regarding the membership, business, profit etc.

## APPENDIX I

### LIST OF THE VARIOUS CLASSES OF SOCIETIES MENTIONED IN THE STATISTICAL STATE- MENTS, WITH THEIR MAIN FUNCTIONS NOTED AGAINST EACH\*

#### General Statement 'A'

##### *(Provincial and Central Banks)*

#### 1 PROVINCIAL BANK

It is an apex bank of the co-operative movement of a province. Its primary object is to finance and facilitate the working of central co-operative banks and other co-operative societies affiliated to it (Rules under the Bengal C S Act 1942)

#### 2 CENTRAL BANK

A central co-operative society, the principal object of which is to finance other registered societies which are its members (Rules under the Co-operative Societies Act, U P)

#### General Statements 'B' & 'C'

##### *(Agricultural and Non-Agricultural Societies)*

#### 1 AGRICULTURAL SOCIETY

An agricultural co-operative society is one of which the majority of the members are agriculturists (Report of the Sub-Committee)

#### 2 NON-AGRICULTURAL SOCIETY

A non-agricultural co-operative society is one of which the majority of the members are non-agriculturists

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\*Supplied by the Reserve Bank of India

## CLASS OF SOCIETIES UNDER 1 &amp; 2 ABOVE

## (a) CREDIT SOCIETY.

A registered co-operative society the main object of which is the provision of credit to its members in cash, in kind or in both.

## (b) PURCHASE AND SALE.

A co-operative society of which the chief object is to purchase for and supply the members any or all of their requirements. (Report of the Sub-Committee).

## (c) PRODUCTION AND SALE.

A co-operative society the main object of which is the joint sale of any commodities of members whether such commodity is produced or processed for sale by the society itself or individually by the members. (Report of the sub-committee).

## (d) PRODUCTION.

A society the main object of which is to help production, (Report of the Sub-Committee)

## (e) OTHER FORMS OF CO-OPERATIVE SOCIETIES.

In this are included innumerable types of societies, such as Better Living, Village Development, Public Health, Sanitation, Medical Relief, Thrift and Savings, Crop Failure and Relief and Housing. The functions of a few are given below :—



## THRIFT AND SAVINGS

A co operative society the main object of which is to improve the living of the members by *reforming bad customs* prevalent among them, *providing educational facilities* to their children and improving village sanitation etc

## CROP FAILURE AND RELIEF

A co-operative society formed to take *measures* for the *improvement of health* of its members and their dependants to *arrange for medical aid* and advice to adopt measures for *better sanitation* to take steps for *prevention of epidemics* and to *diffuse information* on matters relating to hygiene and health

## SAVINGS AND THRIFT

A co operative society formed to *encourage the habit of thrift* among members by *given them facilities to save money*

## CROP FAILURE AND RELIEF

A co operative society the objects of which are to promote the economic interests of its members and more *particularly to afford relief* to members at times of crop failure by *encouraging regular savings in kind in normal and good harvests*

## HOUSING

Housing society means a society formed with the object of providing its members with dwelling houses on conditions to be determined by its laws (Bombay Co operative Societies Act 1925)

**General Statement B—1**  
**(Land Mortgage Banks)**

**LAND MORTGAGE BANK**

A co-operative society formed for granting long-term loans on *the mortgage of landed property* for the liquidation of prior debts by agriculturists, or for the improvement or better cultivation of agricultural land, or for the purchase of land to round off holdings or formed primarily for the purpose of financing such a society

**General Statement 'D'**  
**(Unions)**

**UNION**

As the statement stands, it refers to supervising union. The main object of such a union is to control and supervise other registered societies which are its members (Rules framed under the Madras Co-operative Societies Act, 1932)

**General Statement 'E'**  
**(Insurance Societies)**

**CO-OPERATIVE INSURANCE SOCIETY**

Co-operative Insurance Society means a registered society the main object of which is to carry on the business of "insurance" in all its branches.

## APPENDIX II

### *Classification of Cooperative Societies in U P.\**

The societies are principally classed into two :—

(a) *Agricultural societies*—are those in which majority of the members are agriculturists, i.e. persons whose *main occupation* is the *cultivation* of land or the *rearing and management of live stock*; or of which the object is *mainly agricultural*

(b) *Non-agricultural societies* are those societies which are not agricultural.

The above two are subdivided into —

(i) *Central society* means a society of which at least one member is another society

(ii) *Primary society* means a society no member of which is another society.

For the statistical statements the societies are further sub-divided into six different classes according to their main object.

The six classes are :—

(i) *Credit* These include societies which lend for grain, for seed or maintenance, as well as those which lend cash.

(ii) *Purchase and sale* These are societies intended to facilitate the purchase of requisites for members

(iii) *Production*. These are societies which have for their chief object an act of production without proposing to themselves sales as a direct object

(iv) *Production and sale* This class includes

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\*Supplied by the U P Co-operative Department Lucknow.

societies in which these two functions are united or in which one or the other predominates without it being possible to make a clear distinction between them. It covers all societies whose main object is the joint sale of any commodity whether such commodity is produced or worked up or prepared for sale by the society itself or by the members individually.

(v) Insurance These include societies which carry on the business of insurance.

(vi) Other forms. They constitute of all other societies which do not fall in the above 5 classes

The sub-joined table will show the classification of various types of societies as in U. P.

## Agricultural

## Non-agricultural

	Central		Primary		Central	Primary
	1	2		3	4	5
I Credit	1 Co-op Banks 2 Co-op Banking Union 3 Provincial Co-op Bank	(a) Credit Ltd 1 Village Banks 2 Land Mortgage societies 3 Other socs (b) Credit Unlimited 1 Village Credit societies			1 Merchants Societies	(a) Credit Ltd (b) Credit unlimited
II Purchase and sale	1 Seed stores and other agricultural supply socs	1 Seed stores and other agricultural socs			1 Consumers stores	1 Consumers stores
III Production	1 Irrigation Soc 2 Better Farming socs 3 Cattle Breeding socs	1 Irrigation socs 2 Better Farming socs 3 Cattle Breeding socs 4 Consolidation of holding socs			1 Consumers socs	1 Consumers stores
IV Production	1 Development and Marketing socs	1 Development and Marketing socs			1 Textile	1 Textile

duc- tion and sale	(a) Under Co-op Deptt		(b) Under Cane Deptt		socs		socs	
	(1) Cane Unions	(2) Ghee socs	(3) Milk and other Dairy product socs	(4) Eggs and Poultry socs	(5) Fruits and vegetable socs	(6) Others	(1) Better living socs,	(2) Educa- tional Ins- titutions
V-Insu- rance	1 Better living and R D Associations	2 Educational Institutions	3 Others	4 Prov Co op Union	1 Edu- cation- al Ins- titu- tions	2 Others	1 Women	5 Arbitra- tion socs
	VI-Other Forms						6 Housing societies	7 Others
VI-Other Forms								

## CHAPTER II

### CONSUMERS' CO-OPERATIVES

The two great defects we suffer from today are (1) inadequate purchasing power and (2) our inability due to ignorance and little bargaining power, to use the income with greater economy. One solution of the first shall be to eliminate the class which controls production and one way of effecting this may be to organise co-operative production societies. With these we are not concerned at present. The solution to the second difficulty will be—in the words of Robert Owen—to become your merchants and your own manufacturers to be able to supply yourself with goods of the best quality and at the lowest price. In other words the consumers should unite together, make wholesale purchases and then distribute them among themselves.

In our ordinary life we sometimes come across examples of it. When one of us goes to purchase some commodity, others acquaint one with their demand and ask him to make a collective purchase. This brings us some benefit in the form of say more commission, cheaper price and lower transport charges. No payment is made for the service rendered except the mute understanding that when some one else goes to the market he too offers to make a collective purchase.

If we want to extend the benefit of such collective purchases to others, we must organise what are called consumers' co-operatives. A consumers' co-operative is a society organised by persons as consumers with a view *inter alia* to reduce the middleman's profit in the retail price. A consumer co-operative may take many forms according to the nature of the service rendered. As an insurance society it may provide insurance facility. As a housing society it may make lodging arrangements. As a store it may sell various goods and commodities. Of these three, the last is the most important. Two distinct names used for this form are 'consumers store' and 'co-operative store'.

### FUNDAMENTALS AND ESSENTIALS

The fundamentals of a co-operative store are as follows

- 1 Contribution by each member of at least a fixed amount as share capital
- 2 Determination of each member to buy their requirements of commodities which are sold by the store from the store and store alone
- 3 A policy of cash payment both in regard to purchases and sales
- 4 Sales are to be made at current market prices
- 5 Supply of purest provision possible giving full weight and measure
- 6 Payment of a fixed rate of return on capital, no matter whether it is raised through shares or loans



7 ~ All division of profits among the members to be in proportion to the purchases made by them

8 ~ Open membership

9 One man, one vote.

The other essentials for the progress of the store are as follows, —

1. ~ Division of a portion of the profit among the employees.

2 Devotion of a portion of the profit to promote the efficiency of the members

3 Leaving of their share of the profits by the members with the society in order to increase the capital

4. Adoption of the principle of limited liability

5 Good management.

6 Immunity from political and religious bias

7 Formation of federations after a certain stage of development

Some of the points mentioned above call for detailed examination

*Share*—The value of a share need not be 'high', and for two reasons. Firstly the store is to deal in 'cash' transactions with the resultant rapid renewal of capital. Secondly, if the value is not high, it would be easier for the poor to become a member. There may, however, be an upper 'limit to the share capital that may be subscribed' by a member, partly to avoid any possible attempt at domination by the member and partly to escape the dangers of a sudden withdrawal of a large portion of capital. The

Rochdale pioneers put it at £50 apparently because the store need not seek a large amount of capital. The English Law itself has fixed the upper limit at £200. In Austria a member can purchase only one share. In India a member cannot have more than one-fifth of the share capital or rupees one thousand.

But the tendency is not to lay down any such limit, or to lay it at a sufficiently high level. The Bombay Co-operative Act puts the limit at Rs 3,000 for the ordinary societies and Rs 10,000 for the housing societies. The dangers of sudden withdrawal of capital can be avoided by empowering the store to delay repayment. There are societies which repay the share capital only when the member dies or when he leaves the town or district of residence. As regards the difficulty of surplus funds, the stores have now learnt to invest it to erect houses for the members, to engage in production and to purchase and open recreation grounds, libraries etc. Except in the case of a store which has just begun on a modest scale it would be undesirable to have surplus capital.

*Determination to purchase*—One of the most difficult requisite of the success of a store is the determination to purchase all the requirements from the store. So meagre are the resources of the people that they are prepared to sacrifice quality for quantity, that they would rather run a mile to get the benefit of a five or ten per cent reduction in the price. They even show a tendency to go over to the local established private competitor even for a reduction of two or three per cent in

price It is frequently possible for the established trader to make such offers Even if the store decides to sell commodities at market rates, such occasions are not infrequent when the price proves to be slightly higher or the quality, slightly inferior At such times unless there is firm determination to purchase from the store and the store alone the temptation to become disloyal may be too great to be overcome Although the 'determination condition' does not appear in the model bye-laws, it is essential that this should be taken as one of the fundamental conditions of a co-operative store\*

*Payment*—If the store allows credit sales it is very likely to find itself unable to realise some of the outstanding balances Due to this locking up of capital and the uncertainty of realisation it may feel itself compelled to raise prices which is undesirable. Again, cash sales are necessary to inculcate the habit of thrift and distinguishes the store from the retail traders who generally sell on credit to attract and enslave customers If credit is at all allowed, the members should be asked to make an advanced deposit and then continue to purchase without a ready payment till the end of the month or till the advance is nearly used up In the begin-

\*In the European countries one finds the imposition of an obligation upon members—subject to a fine in default—to conduct all or a given percentage of their custom through the society for a number of years The model bye-laws of British stores also provide for the general meeting to fix a minimum amount of purchase by each member from the store If he fails to do, his share money shall be returned and his membership cancelled

ning credit sales may be allowed to certain poor wage earners who have to wait till the pay-day to pay for their past food

The policy of ready payment should also be followed in regard to the purchases. It shall help to establish the goodwill of the store with the wholesalers. It shall enable the store to get lower rates for its purchases. It shall also leave the store free to purchase anywhere.

*Price*—There are three possibilities in regard to the sale price. It may be as near the cost price as possible. It may be higher than the market price. Or it may be equal to the market price. The first two entail the necessity to determine the sale price. This is well nigh impossible in the first case. Sale at cost price may be advisable, say, to enable the very poor also to buy their 'bread'. Two arguments may be advanced against this. Firstly, there is very little margin of profit in the case of such commodities, so that even if the cost price could be determined, the purchasers would not benefit appreciably. Secondly, sale at cost will preclude the society from selling to the non-member because it will be absurd to confer on them the same benefit as on the members and it shall not be possible to maintain two prices, one for the members and another for the non-members. It is also possible that in such cases members may be tempted to buy themselves for their friends and, who knows, even to make a little profit as a middleman. Sale at cost shall also no doubt reduce the profits and thus pre-

clude the society from attaining other objects such as collective saving, education, insurance, etc.

As regards sales at higher than the market rates, it can be possible only when the members have a 'robust enthusiasm' for co-operation. It can no doubt enable the members to save more compulsorily and get a greater dividend at the end of the session. Ordinarily it should be deprecated, firstly, to avoid being run down by the local traders and, secondly, to extend co-operation to the poor.

Sale at market price is therefore advisable from the point of view of the ease with which prices shall be determined to avoid to some extent the competition from the local traders, to accumulate profits and to serve the non-members as well.

As the store charges the market price, it can be concluded that the price is not fixed for all time. Where, however, goods are supplied by co-operative production units, e.g., in England, fixed prices are advocated by a section in order that the co-operative stores may advertise the goods and *their prices too*. The policy is questioned and opposed on the ground that different stores have different working expenses and some like to maintain a certain rate of dividend. But this question is not likely to arise in India for some years to come.

\* The Co-operative Planning Committee also favours this policy. Dr. Kailash Nath Katju, however, seemed to argue against it in the pages of the U P Co-operative Journal (Jan., 1947, P. 184).

Prices in the co-operative store may yet be fixed in two senses. One, certain private producers fix the retail prices of their commodities e.g. Bata shoes. The store should maintain these prices. They are really the market prices. Two, prices are fixed in as much as they are *generally* the same both for members and non-members, and cannot be reduced by any amount of higgling.

### STORES AND NON-MEMBERS

It is preferable to extend the service of the store to the non-members including the employees of the store for two reasons. Firstly, no business firm could deliberately lose the 'custom' that comes to it. Secondly, if non-members are thus in contact with the store they may realise the benefits of co-operative membership in the form of better service and accumulated saving (dividend) returned at the end of the year, and become members of the store in due course.

But it is sometimes argued that the moment a consumers' co-operative were permitted to trade with non-members, the inducement to make profit out of trading with the latter would become almost unconquerable and the members would, falling a victim to ordinary human nature, like to sell at high prices, so that in the end by way of dividends they may ultimately get the goods cheap for themselves. This argument seems to make two assumptions. Firstly, that even though a co-operative store begins to charge a higher price, the non-members would not fly off to the competitors. Secondly,

that members would themselves continue to buy from the store at the high prices. None of these are true, at least not in a country like India

Should trading with the non-members be in a negligible measure? If the members of the co-operative are sincere and buy most of their requirements from the store and if non-member-purchasers are regularly becoming members, in the long period the percentage of sales to non-members should in general be small. Certainly it need not be negligible. If the service by the co-operative is better than that by others, more and more non-members should come to it. The percentage of sales to non-members is likely to be substantial in the case of students co-operative stores. If we once concede the point that non-members may be served in the same way as the members the extent to which trading with non-members should be allowed does not arise. One may, however, justifiably demand that the net surplus on account of non-members ought not to be distributed among the members. This is a question pertaining to distribution of profits and not to prices. It may however be mentioned that the co-operatives believe in giving back to the non-members what comes to them, and that in the form of bonus or paid-up shares. If the co-operative

§Sale to non-members is a practice even in England, America and Russia. In England since 1865 the non-shareholders have been even given half the rate of dividend granted to the members. In America this policy is evident from what *Ellis Couling* wrote in *Co-operative in America* —

department finds scrupulous stores organisers doing little to bring the non-member customers within the co-operative fold, it may take action against them. Of course, in general, a co-operative store must not be allowed to run on "non-members." This would be easy to verify. The store may be made to issue a receipt for every sale bearing the purchaser's name and indicating whether he is a member or not. The cash memo totals would indicate what portion is sold to non-members. The verification would be easier if the co-operative is asked to indicate in a register the total daily sales to members and non-members separately. Any foul tricks by the workers, e.g., deliberately giving the name of some member on most of the cash memos, too, would not be difficult to check.

*Service* — Every businessman is honest, at least till some time after starting the business. It helps to establish his good will. So he is even prepared to incur some loss for giving the customers an "entirely-to-your-satisfaction" service. A service that entails definite loss cannot be recommended in the case of a co-operative store. But quality and quantity ought not to be sacrificed. Private traders are apt not to mind these after they have been somewhat firmly established. But a store must never forget to supply good quality and full weight. If commodities are supplied in inferior qualities or

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Non-members may buy their way into membership. They may do it by purchasing a share of stock, or by simply giving their trade to the organisations. Non-members often receive their portion of the patrons' refund in terms of credit towards their initial shares.



less than the weight paid-for, it is not long before the goodwill is lost.

*Profit* —The profit received by the members is indicated by various names such as bonus, refund, repayment, dividend and sometimes merely 'divi'. It is generally a fixed percentage on the gross sale to every member. It may be argued that as in a way co-operation stands for returning to the members what has been charged above the net cost, the payment of a fixed percentage means payment of less than what has been charged in the case of commodities which bring a greater rate of profit. But commodities which bring greater rate of profit are generally purchased by the relatively well-to-do. Therefore the system only results in a slightly greater benefit to the poor, this is socially desirable. But in practice such inequality of advantage is not likely to exist because the members are generally persons of the same status so that their tastes and demands are unlikely to differ widely.

It must be mentioned that as the (share) capital ought to earn a fair interest, a dividend is paid on all shares also and this is before the bonus on purchase is declared. Of course the dividend on capital is just a limited (moderate) rate of interest.

The form in which the 'divi' may be paid also deserves consideration. Where the members are apt to use it for a little 'spree' it may be advisable to pay the dividend in the form of docket which may be exchanged for goods at the store. The system should not be used in general, because this

means that the dividend can be neither saved, nor used for some other purpose. It shall be better if members, who have little saving in their private accounts, are persuaded to let their dividends remain in the store. This will not only lead to an accumulation of savings for the members but add its mite to the owned capital of the store. Where members realise the need to raise their standard of living, they look to the dividend in order to meet some extraordinary expense e.g., getting a new set of clothes, purchasing furniture or some other article which they cannot purchase out of their monthly income.

The extent of profit depends on good management, loyalty of the members the size of the firm, the prices charged etc. But an attempt can be made by some to increase the profit by lowering the wages below the general (or trade union) level, reducing the allocation to the reserve fund and the depreciation fund, and by cutting down the contribution for works of general utility. No such attempt ought to be made as it can at best lead to a short-lived greater economy and saving at the cost of the progress of the store.

Lastly, two points may be particularly noted in regard to the distribution of the profits of the store. Mention has been made above of works of general utility. A co-operative shall not be very much unlike a capitalist society if it divides the profits (after allocations to reserve and depreciation) among the members. To be true to the co-operative ideal, a portion of the profit ought to be

devoted to some loftier and social ideal *e.g.* education recreation libraries theatres, gymnasiums dispensaries even charity and grant of a bonus to non members The bonus may be awarded in the form of a share in the store It is never to be the same as is granted to the members The bonus shall not only enable certain persons to become members but also be a means of publicity of the advantages of co operation

The other point refers to the employees being allowed to share the profit It is of the essence of co operation that all work should be done by the members themselves In view of the wide field from which the members of a store are likely to be drawn it may be found suitable to employ paid workers For the success of the store it is essential that the employees should take a sincere and keen interest in the sales of the society Consequently a part of the profit may be distributed among the employees equally or in proportion to their salaries The profit thus distributed may be determined as a percentage on the total gross sales for the year so that the employees may feel that greater the sale greater shall be their share in the profits of the store The amount distributed may also be looked upon as the inevitable expenditure for saving the profit that would accrue to private traders if purchases had been made from them

✓ *Membership*—Generally the membership is open to everybody who agrees to abide by the store byelaws and pays the necessary share money It is not advisable to restrict the membership to

persons belonging to the same trade, caste and status. Although such a restriction is likely to bring in a spirit of solidarity, such stores are apt to degenerate into commercial enterprises which are not interested in the aims and ideals of co-operation. In certain cases, however, the restriction may be justified *e.g.*, in the case of railway-men's store where the railway company allows special rates for the transport of provisions.

Freedom of entrance should also carry with it the freedom of withdrawal, and it usually does. But the danger is that the store may be faced with a sudden withdrawal of capital. The danger may be averted by permitting refunds only on death and transfer from the locality, town or district. The store may also have the power to delay repayment.

But should not the membership be restricted to one person per family? If all the other members of the family enrol themselves in the store are they likely to bring more business to the society? Yes, the visits of the family (through its members) to the shop shall be more frequent and hence purchases are apt to increase materially. This is found to be true by experience also. Above all, the greater the membership, the greater the capital made available to the store.

Lastly, the store ought to have the power to expel any member whose presence is prejudicial to the interest of the store. In order to avoid possible misuse of the power, the expulsions should be decided upon in the general meetings.

*Management* If a store is badly managed, it will not make profits; if it continues to be badly managed it will soon be forced to liquidate itself. Less profits or losses are generally due to incapacity, inadequate supervision, bad accountancy, dishonest *employees*, unduly large running expenses, lack of purchase experience, etc. The *employees* have been underlined as they are one of the most important pillars of success.

The *employees* must be honest and fired with the spirit of service. They must be co-operative-minded and ready to show that men and women can be faithful without a master always standing at their back. The store, on the other hand, must assure the workers fair wages and conditions of work. It may be suggested that the store should adopt the policy of having member-employees and that of sharing the profits with the employees.

Three arguments against the policy of having member-employees may be mentioned. Firstly it is apt to lead to relaxation of authority and hence discipline shall be undermined. Secondly, it may lead to illegal transactions, particularly when the employee shall make a purchase from the store. Thirdly as employees are apt to have grievances they will therefore be invariably present at the meetings of the store which are scarcely attended by other members. Consequently, it may happen that the employees may successfully press for decisions which shall be more in the interest of themselves.

But this is rather an abnormally pessimistic

view. Unless the interest of the members (acting as employees) in co-operation is only apparent and not real, it should really pay to have member-employees. Unless the member-employees be dishonest and disbelievers of co-operative principles, they would in effect be cheating themselves if they cheat the store or indulge in illegal transactions. And it shall be only when they are less of a co-operator that they would exact unfair concessions for themselves at the meetings. If they are not true co-operators, it shall be preferable to turn them out of the store. As regards their voice at the meetings of the store, it may be laid down that employee-members shall not have the power to vote on matter concerning the employees.

Hence it is preferable to have member-employees and the employees must be given the chance to become members. As regards the policy of profit-sharing with the employees, it has already been considered. It is desirable, and the amount involved has to be looked upon as the inevitable expenditure for efficiently running the store.

*Neutrality.*—The store should keep itself immune from political and religious tendencies. Such tendencies are apt to lead to the establishment of more than the desirable number of stores in a locality, resulting in an unduly small size of the firm. Again, absence of neutrality shall encourage political and religious bitterness which

should be avoided more so in the case of a country like India

*Federation* — After the store-movement in a region has progressed sufficiently, it is essential that central associations should be developed to coordinate the activities of the societies, to acquaint the public with the progress of the movement and to purchase goods in bulk to supply the total needs of the societies in the region. It does not seem desirable to charge a single association with all these functions. A purchase federation should be formed exclusively for purchase-work. Such a federation not only secures reduced prices but is also a safeguard against any boycott by the local wholesalers and manufacturers. An established federation is also of great help to the infant and rather inexperienced stores and eliminates the possibility of managers being bribed by the private wholesalers in order to secure the custom of the store. The federation can also undertake works of general utility, such as banking and insurance. The federation can also render it possible for co-operatives to undertake manufacture of goods.

## STORE AND PRODUCTION

Can the stores really undertake production? They no doubt can but the point is if it is desirable. One can very well understand the justice of eliminating and saving what goes to the private middlemen. But in a production unit where the control and benefit of production goes to the consumers,

the position of the workers will not be improved. The fruits of the workers labour will still be reaped by others. Justice demands that in production, the control should be in the hands of the workers who should share the profits. If the consumers want to share it, they should become workers. But the consumers (*i.e.* the customers) may be in the form of wholesale stores who cannot work but who can say that if they shall not be given a share of the profits they shall start their own production. This is of the form of a threat. The only reason that can be given with some justice is that without the demand from the wholesale stores the sales of the producers would possibly suffer. But the producers may similarly claim a share in the profits of the store by saying that but for their production the members of the store could not have satisfied their wants. The point to be realised is that the producers cannot consume all they produce, and the consumers cannot produce all they consume.

Hence there must be co-operation between producers and consumers. There should be proper representation of the consumers and producers on the control directorate of the production unit.

In actual practice consumers' societies do undertake production and it is necessary to consider what should be the relation between the store and the workers. Labour must have a fair wage and fair conditions of work. Besides it must find full representation on each committee appointed to look after production, as also a share in the profits made on the commodity produced.



Though consumers' societies have succeeded in undertaking production both industrial and agricultural, the success in the latter field seems to indicate that the stores should better restrict themselves to provision of capital and, if possible, a representation on the board of control

There is still left the question whether a consumer-store should undertake such services as are generally rendered by the state or municipalities. These services require a large capital and cannot in general be undertaken in a size commensurate with the membership of the store. They have to be made available for the whole locality city or region. Also a municipality is in a way a co-operative body in as much as the profit made and the economies effected are made available to all the inhabitants. Hence it might be said that a store may not undertake such services. But no hard and fast rule can be laid down. The circumstances of locality or region may be such that the local body may not undertake a certain public utility service, while a co-operative may be willing to make a start. Later the co-operative may succeed and be in the best position to expand the service and cover a whole region.

## STORE AND PRODUCERS' CO-OPERATIVES

If the stores are not to cover production, should not a link be established between them and the producers' societies? It shall save the producer co-operative from being exploited by the private traders. It shall ensure sales. As regards the stores,

their custom shall not go to the private traders and wholesalers who in general try to run them down. It would be particularly helpful to new stores if they can get their requirements supplied by existing producer co-operatives. But there are certain hurdles. The supply may not be available to a store near at hand, at the right time and of a certain quality. It may therefore be necessary that marketing federations should enter the collection market at the wholesale end, and also undertake processing to a certain extent. Direct link between consumers' store and a producer's co-operative may sometimes lead to an attempt by the producers to demand a higher price even for a poor quality. Therefore, while a link would be welcome it ought not to be established by compulsion. Each of the two sections should be encouraged to afford facilities of contact but in no sense should there be dictation of terms of business. The co-operative publicity organisation of the region must make the information about the existing co-operative suppliers and purchasers available in the form of a small directory. It must also act as a clearing house of information; and it must be stressed that its service in this regard must be prompt and efficient. The state co-operative inspectors can also help a lot in promoting inter co-operative trade.

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## STORES AND THE STATE

But the stores movement has had to look to the state for success. The state is concerned in regard to legislation, administration, taxation and promotion. As a legislator the state can further

the cause of the consumers' movement by according legal recognition to the store. The consumers' store movement in India developed—whatever the achievement to date may be—only after legal recognition in 1912. As an administrator, the state can, in times of emergency, enable the co-operative stores to manage certain public services and accord their representatives a place on the committees created for solving the problem of food supply etc.

As regards taxation, legal recognition itself carries with it certain privileges accorded to every co-operative in respect of taxation. Thus they are generally exempted from stamp duty and income tax. So far as the store is concerned, exemption from income tax is justified because it does not really make a profit: its object, *inter alia*, is to save what would go to the private trader.

But the stores have claimed exemption from certain other taxes such as the sales tax. The co-operative stores do deserve help and encouragement because they eliminate profit and reduce the work of the police and the public health authorities by ensuring proper weight and quality. But similarly certain features peculiar to the credit societies can be pointed out and others for the producer co-operatives. In fact it is for all these that certain general exemptions from taxation are provided for. The arguments cannot be used to get a second privilege, say, exemption from the sales tax. In Madras the co-operative stores are liable to sales tax. In fact unless a tax is likely to retard the progress

of the stores in comparison to the private traders, they need not be exempted from it.

Lastly, the state can promote the progress of the stores by offering them special facilities. If stores have been recognised as better than the private traders, then the development of the stores can be particularly helped during emergency when the duties of purchase and supply (with facilities for import and transport) may be preferably entrusted to co-operative stores. Also, the state may rather, must—make available to the stores the knowledge of commodity storage and market intelligence, without which the organisers of the co-operative may find it difficult to know the market practices and to buy the supplies in the right (wholesale) markets. The provincial co-operative departments can easily publish information about the sources (and prices at these sources) from which goods may be secured.

## PRODUCERS' CO-OPERATIVE SOCIETIES

One solution of the inadequate purchasing power in the form of income and wage was to cut down the prices and thus increase the value of every single rupee by forming the consumers stores. Another solution is to eliminate the class which controls production—in the words of Robert Owen, to become your own manufacturer by organising producers' co-operatives in which workers

(1) Three other names of producers' co-operative are the industrial co-operative, the indusco and the incop. But these have been used with reference to non-agricultural

or consumers or both participate in the management and profits of the enterprise. This is also the solution to provide the incentive to do one's best because the division of interest between the worker and employer is removed by combining the two entities. It is also the remedy for securing a better and brighter future for the hereditary handicraftsmen who are suffering on account of the difficulty of supply of raw material, finance, better means of production in the form of tools, implements, machines and power, proper guidance and absence of bulking and centralising of sales. They must be brought together in small workshops. The desirability of decentralised production and of creating a vigorous and progressive people, the necessity for finding a solution for the low standard of living and the unemployment and the under-employment in agriculture, the fact that agriculture and craft industry did produce men vigorous in mind and body and the advantages of co-operative principles,—all point to the need for organisation of occupations based on horticulture, pisciculture, apiculture, sericulture, dairying, processing, ginning, preserving, crushing, decorticating etc., on co-operative basis.

The case for producer cooperatives can be

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production. When used they do not include, say, a marketing society. Theoretically producers societies can be organised both in agricultural and non-agricultural fields. As shall be seen from the text though the Fundamentals and essentials are given in general in other respects the treatment is with reference to non-agricultural producers' societies.

made out in a different way also. Firstly, in an agricultural country, industry cannot be divorced from agriculture except at the cost of employment and the standard of living.<sup>1</sup> Consequently industrial production has to be organised on the basis of the cottage and the village. Secondly, the final objective is to develop the human personality and the individual skill. For this we require activities that make for vigour of body and mind. Leisure and its use should not be therefore commercialised—much less when there is a sparse and widely distributed population. The best way to provide such activities is to develop handicrafts in small groups.

Thirdly, researches and progress in industrial organisation and greater division of labour indicate the necessity for 'functional foremanship' and the use of an increasing percentage of unskilled workers—men of small calibre and attainments. In other words, the present day industrial organisation does not stand for the best development of faculties of the workers. Why not replace such a system by less mechanical small scale workshops?

Besides, in many consumption goods indus-

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(1) Switzerland is one example of this. Its peasants union had ultimately to organise the textile production with the help of hydel power.

England is also combining agriculture with light industry.

U.S.A. too is planning land-use by townships utilising industrial equipment available locally.

tries<sup>1</sup> small industrial units can be organised as complementary to large scale units. The high quality of the product and efficiency are less likely to be affected in a greater number of industries if the Factory-proprietors supply detailed instructions, financial assistance and technical advice. Where possible they may even supply materials and tools. Thus the smaller units can share the economies of large scale buying, marketing and financing.

Fourthly, it is found that conflicts arise in our present industrial structure with regard to pricing, timing of jobs, and the rating of bonus. These can be minimised and simultaneously an increase in the efficiency of production can be secured if certain sections of the production units are placed completely under the control of the workers of the sections<sup>2</sup>. The workers may be

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(1) "Only a few decades ago the English high quality watch trade was conducted in a multitude of very small workshops. The change to large scale methods in the trade was brought about for economic reasons which might not have been so influential in a different industrial environment"—vide Japanese industry—its recent development and present condition by G C Allen. In Chapter III of that book examples are quoted of the use of small units by large units situated in villages in Japan. He mentions Prof Uyeda who showed that many parts of standardised modern engineering products can be thus manufactured

(2) As has been successfully experimented upon in certain motor works in France and dyeing works in Yorkshire (England).

told to produce work of a certain standard and be free to divide the work and the wages for that section among themselves.

It is therefore desirable to organise small workshops controlled entirely by the workers

### *Fundamentals and Essentials of the Society*

The case for producer cooperatives is therefore established, but only apparently. There are arguments and historical evidence that seem to weaken the force with which producer cooperatives can be recommended. We shall presently see how? We must first be clear about the essentials of such a society and other details. The fundamental principles of the society are :

1. Contribution by each member of at least a fixed amount of the share capital

2. Promise by the member to sell their produce (if dealt in by the society) to the society, except in the case of goods rejected by the society.

3. Cash payment in regard to the transactions with the outside dealers.

4. Division of profits according to the business done with the society or the wages earned

5. Open membership

6. One man one vote.

The other essentials are :

1. Division of a part of the profit among employees including the auxiliary employees.



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The other essentials are :

1. Division of a part of the profit among employees including the auxiliary employees.

2 Allocation of a part of the profits to education, orphanage, provident fund, sickness insurance, etc

3 Inducement to members to leave the profits in the society

4. Formation of federations as soon as possible to make collective purchases and organised sales. This would also render possible a common shop, exhibition of goods, etc. To be more exact the federations can be of two types, viz, for technical progress or for common facilities in respect of finance, transport, marketing and supplies. The federation of the second type may also ultimately undertake the management of common good fund of the member societies and tackle the problem of wages,

5 Limited Liability

6 Good management It should be seen that the workers are not underpaid lest what they may earn in profits may be lost in wages

7 Freedom from political and religious activities

### **Types of the Society**

It will be guessed from the fourth fundamental that a producer coop may be of two types. In the first type the society may help the members to produce commodities individually by undertaking some or all of the functions given below

1. Provision of credit facility

2 Supply of raw material of the requisite quality.

3. Supply of tools and implements for the members' use The members may purchase these from the society on hire-purchase system, or outright, or may use it collectively, say, at the premises of the society

4. Advice and guidance to the members regarding the type of work to be executed in respect of design, quality etc.

5 Supervision of work

In the second type of society there is collective production. The raw material belongs to the society The members act as employees getting a wage on the work done by them either at their homes or at the premises of the society. Production at home is possible if the manufacturing operation does not admit of the use of expensive tools and machines which are not possessed by all members

There may be a third type of society where the members come to control production only after they have become well educated and received a training in business administration. This is generally possible if there is a philanthropic businessman who manages the affairs of the unit and slowly transfers the management to the representatives of the workers.

The first type of society is to be preferred where poverty prevails so that it is difficult to raise even small funds The second is the type that should be aimed at The third is only an exception It shows that philanthropic idealism can succeed.

### Wages in Induscos

The problem of wages is thought to be complex and difficult-to-solve by some. But it is found that cooperatives generally pay a little more than the standard and trade union wages. Wages are *inter alia* meant to encourage people to cultivate their faculties. In order to secure the incentive to do one's best, wages have to be differential with similar increases. Since the native endowment—rather the developed and applied capacities—are correlated with "needs", the wages are such that it is rewarded. But others must be given the opportunity to acquire and develop capacities. Since it is difficult to provide for it under wages, a portion of the net surplus must be applied for educating the members to their highest capacity. Incidentally, the balance of the net surplus should be used as far as possible to build up funds to return loans and advances and for use as a margin for working expenses.

### Conditions of Success

For a high probability of success of a producers' cooperative, it is desirable that the members should be intelligent, disciplined and self-respecting. Also in the short period, and at least in the beginning, cheap finance should be available either from banks, including co-operative credit institutions, or the state itself and sufficient custom facilities should be provided. Preference can be given by the state to the co-operative goods in regard to the purchases made by it. The state can also offer transport facilities.

In India special attention was paid to these problems by the Co-operative Planning Committee and the Industrial Co-operatives Conference (Poona, 1946). The resolutions of the latter rather go into greater details in certain respects than the recommendations of the committee do. Both are in favour of area and regional federations for organising industrial co-operatives and village industries. The committee is in favour of promotional agencies preceding the federations. Possibly they derive their inspiration from Chinese industrial co-operatives. The conference wants sympathisers to be elected members of primary societies for the first five years. Thereafter the general meeting is to determine whether such membership be ceased. If adopted the recommendation should prove conducive to a rapid progress of the primaries.

As regards finance the committee wants the tax payers money to be spent for the promotional work. So far as the induscos are concerned the state is asked to finance both fixed and working capital. A part of the former—according to the conference half of it—is to come as subsidy and the other half as a low-interest loan repayable by instalments over a long period. So far as the working capital is concerned the conference wants that the state should supply this also as a loan but I think the committee takes a better stand. It wants the funds to flow through credit—particularly co-operative—institutions subject to state guarantee. The committee also recommended that under section 17 (2) (a) of its Act the Reserve Bank

should give financial accommodation to the provincial co-operative banks for advances and loans to induscos up to one year. The conference rightly demands that the state should not give loans to individual artisans directly if an industrial co-operative exists in that line in the area.

The committee has suggested that small industries should be taken away from the Director of Industries who shall have to acquire equipment and staff suited for large scale industries, and be placed under the Co-operative Department. The committee as well as the Conference want preferential purchase by Government bodies. While the committee leaves the decision about the sphere to be assigned to small and large industries reservation of markets tariff protection etc. to a separate committee the conference merely mentions that the state should give help regarding raw materials tools marketing transport technical training and fiscal protection and tax-relief.

### Case For Incop Reconsidered

It is these requisites that undermine the force with which producer co-operatives can be recommended. These co-operatives have been a success in France, in Italy in Russia and recently even in China and they are at times shown to be making speedy progress in India. But every where some benevolent agency local authority or the state has provided the finance and technical ability has given marketing facility and has purchased the goods. There is one more reason why the argu-

ment for producer co-operatives loses force. In the long period, the workers have a tendency towards conservatism and indiscipline, and if you look at co-operative production from the point of using better tools and implements, there can be observed a tendency towards mechanisation on a larger and larger scale such that control and distribution of the profits among the workers and the members equitably tends to become a complex nay, an impossible task. In the short period, however, and particularly in the backward countries with widely spread population, the system would succeed. It may be so even in the long period provided the scale of production and the area of operation of a society is limited properly.

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## CHAPTER III

### AGRICULTURAL CO-OPERATION

The necessity for agricultural co-operation was felt when the commercialisation of economic life began to affect the agriculturist. Then he felt that with the other agriculturists he should acquire the knowledge, the skill and the experience of the wealthy and the monopolistic neighbours. The necessity became important when the urban area began to absorb the industries which had been associated with agriculture and still more, when the town began to produce expert men and better sales organisations which could outshine and outwit the agriculturists.

In agricultural co-operation, the scale of operation is small and consequently, the holding of the general meeting with almost all the members present is not inimical to a proper management of the society. To understand it more clearly, in an urban society where a large membership exists, the resolutions adopted at the general meetings may not be arrived at after full and orderly discussions, and sentiment may have influenced the decision. It is not likely to be so in the case of an agricultural society.

Unlimited liability has been adopted as a rule in the agricultural co-operatives with a view to enforce strict responsibilities but unlimited liability

is undesirable if the members do not understand its significance

In the case of an agricultural society, transactions with non-members need not be permitted, mainly because if this is allowed the non-members are not likely to come within the fold of co operation<sup>4</sup>

So far as the management of the society goes, there is not required a staff of persons with full commercial capability. The society needs a local man who is fully acquainted with the local conditions and is preferably trained and educated. He need not merely be a man of respect.

The agricultural society also expects and in general does get, help from the State but in any case the state audit is undesirable. Audit by a union of agricultural societies is to be preferred to audit by state officers because the latter are not likely to take any real interest in the auditing of the cooperative societies.

However the scope of agricultural co operation is enormous. It may be applied to the supply of raw materials and tools required by the farmers, to the marketing of the agricultural produce to the processing of the commodities produced by the agriculturists, to animal husbandry to consolidation of holding either by a redistribution of farms or through co-operative cultivation, or it may be applied to the subsidiary occupations and cottage industries which may be beneficial so far as the purchasing power of the agriculturist goes.

The application of co-operation to agriculture has been more successful when it is applied at the point where the agriculturists contact the market i.e. for the supply of their requirements and for the sale of their produce. These two offer them a more material return. They may secure greater return by improving the quality, by saving on transport and by selling by products. But it cannot be laid down as a rule how agricultural co-operation should be started in any particular country. This shall depend on the prevailing conditions. The land may be fitted for cooperative credit, or the agriculturists may not feel the responsibility of using the credit in the right way, and of paying the dues punctually. Or, it is possible that the peasantry has to run to nearby markets or urban areas for procuring its requirements; then supply societies are likely to be successful as did happen in Switzerland. There the supply societies were organised as mere letter-boxes for receiving the orders and transmitting them to the suppliers. If, however, the requirements of farmers are generally supplied in the villages cooperative sale societies may be organised.

In a country like India cooperative credit movement has been a failure. There are required industrial societies and societies to replace the multi-functioned *mahajan*. Because there already exist credit societies, there is urgently needed the organisation of sale-societies. From the point of view of radical changes, farming societies and better living societies also deserve consideration. It is proposed to study these four types under agricultural cooperation in the following chapters.

## CHAPTER IV

### COOPERATIVE SALE SOCIETIES

The aim of a sale society should be twofold, It should secure a remunerative price, and it should make available a permanent and ready market for the produce of the members. For this an assured supply and a guaranteed quality are essential. The supply of goods can be ensured if the members are loyal. Should the members have the option to sell to the society or not, it shall be in a weaker position than the private dealers. While the former shall be a bidder for the produce of the members only, a private dealer shall have a choice over the commodities produced by the members as well as others. Besides the members shall be apt to sell privately in a period of high prices and to dump the goods on to the society at the time of low prices which shall invariably mean losses for the society. If therefore the members have the option to sell to the society or not, the society should also have the choice to accept or to refuse the goods offered by the members. As this will be contrary to the co-operative principles it is better if more continued or complete loyalty of the members is secured. One method lies in demanding of the members a long notice before they withdraw from membership. Another method could be to impose fines and penalties on the defaulting members without any laxity.

In this connection it has also been argued that

for successful operation the society should have the control over the produce of all the persons within its area of operation. Consequently, in certain parts of the world, there is a provision that if 75 per cent of the population producing 75 per cent of a commodity have no objection to co-operative sales, it shall be deemed compulsory for all. According to strict co-operative principles, it is not desirable to make it compulsory for the members to sell through the society and the society alone. If in a country, like India, it is found that co-operative marketing cannot otherwise succeed the remedy would lie in a more intensive analysis of obstacles. It may be that the slow progress is due to the absence of some functions. To be more specific, the society may not be supplying the services which a private tradesman does.

To ensure a certain quality, the members must adopt the practice of supplying goods up to a certain sample or design. Greater care shall have to be taken in regard to the quality of such commodities as milk, butter, ghee and eggs, where the quality cannot be easily controlled at the retailer's or consumer's end. The society may undertake grading of the produce, and a central trade mark may be evolved. A number of trade marks instead of one shall be desirable if the commodity is to be supplied to different regional markets which are likely to require different qualities, or different packings. Experience in South Africa and New Zealand shows that private attempts at standardisation do not succeed. If similar conditions exist in a country, the work of

## CO-OPERATIVE SALE SOCIETIES

grading and standardisation may be taken up by the State

Better form and greater return may also call for processing operation by the society. This may also secure valuable by-products. Thus, if societies dealing in oil-seeds were to undertake oil-crushing, the oil shall secure a greater price and the oilcakes can be available to the cultivators for being used as fertiliser or cattle-food. Processing operation by the society is also bound to mean greater employment for the members of the society.

### Conditions of Remunerative Sale

For remunerative sale the marketing society should generally confine its activity to wholesale marketing. The retail market demands a careful study of the demand of the consumers. For this co-operative stores are better suited than sale societies. This does not mean that a co-operative sale society is not to serve individual consumers in any case. Individual consumers may be served by, say a co-operative society dealing in milk and eggs.

Remunerative sale also demands a continued contact with the market. The manager of the co-operative society must know where the markets are situated, what the market practices are, and how the demand and price are fluctuating in the different centres.

Thirdly, there should be a proper sale-relationship with the members. A number of alternatives suggest themselves. The society may undertake outright purchase of the members' produce, may act as

a commission agent or may function as a pledging centre. If it is a pledging centre, the members can store their ~~goods~~ in the godown of the society and get an advance on the security of the goods. In due course they may sell the produce and return the advances. Really speaking this would not be marketing of the produce. The society would be acting as a credit agency and therefore it would be wrong to include it under co-operative marketing.

In case the society acts as a commission agent, it may sell the individual member's produce separately, or in bulk with the produce of other members. In the first case, the society can secure, for the individual members' produce, only slightly more bargaining power and the escape from market malpractices, but not the benefits of pooling the produce and proper gradation. If the members agree to pool the produce the society may estimate the value of each member's produce originally and advance three-fourths of the value to the members. Then the goods may be pooled, graded and sold. The profits may be distributed in proportion to the originally estimated values. Alternatively, the society may credit to the account of the individual member the value of his produce at the average sale price. The danger would be that members who bring superior varieties, may tend to be disloyal. Hence the method of average sale price may not be adopted till the produce of the area has been standardised.

If the society adopts the method of outright purchase, the risk of loss and gain will be borne by

the society in the first instance. In the case of outright purchase at market rate, the society shall be in the same position as the private dealers, and the manager shall have greater freedom to sell the produce as and when he likes. The danger is that the society may suffer heavy losses on account of miscalculation or fluctuation in prices beyond the imagination of the manager. So there may be a price committee to help the manager in fixing the price.

### Marketing Credit and Supply

The pooling of the produce by the society is the most important feature of co-operative marketing and there are many important factors which are directly and indirectly connected with it. One such question is, should the marketing operation be combined with credit operation or with supply operation? In other words, should societies be organised exclusively for sale, or (1) supply and sale, or (2) credit and sale? If a credit society opens a marketing branch, there is likely to be less difficulty of finance. The credit society shall have funds, and there shall also be avoided the delay which would be otherwise rather inevitable if the marketing society was to arrange for a loan or an advance to its member. But it is questionable whether even a credit society with unlimited liability should adopt the marketing function. Thus the Indian agriculturists may not like to sell their produce through credit societies with unlimited liability. Also, it may be difficult for the directorate of the credit society to control the activities of the manager in the marketing



branch Further, the two functions, *viz*, credit supply and marketing may demand a staff too qualified to be found in the rural areas It has therefore, been suggested that there should be established a close co-operation between the credit and marketing societies The credit societies may grant controlled credit controlled in the sense that there shall be a condition that the borrower would sell his produce through the nearest marketing society Even this is not agreed to by certain authorities In India for example, the Madras Committee on co-operation 1930 did not favour the adoption of this principle but were not averse to experiments being made in the direct on

It is, however more practicable to combine the marketing operation with the supply operation We know that the agency which purchases the produce of the cultivator is also generally the agency which supplies the requirements of the cultivator It may, therefore be suggested that it should be easier to achieve success if the sale societies also undertake the supply function Then loans can be granted to the farmers in kind and the price with a reasonable interest can be deducted from sale-proceeds or from the profits due to the farmers

### Storage

For the success of the sale societies, they must have proper storage facility It would be incorrect to suggest that the sale society should make an advance to the member against the produce-to-come That is the function of the credit society The

sale co-operative can only be expected to advance credit after the crop has been harvested. For this purpose the society can draw upon the neighbouring credit societies and get a loan without security to some extent. In general, it is desirable that such arrangement should be made as would mean greater security and also make it possible to get more funds. One solution lies in having storage facility, which is also necessary if goods are not to be marketed just after the harvest. It is therefore essential that the marketing societies should have godowns. The construction of these godowns may be financed by credit societies, the central banks or the Government on a long-term basis. Proper methods must be adopted to minimise the expenditure incurred in providing the storage facility and in the shape of destruction caused by insects.

Due care should be taken to avoid possibility of fraud by those in charge of it. For example, it has been found that not infrequently the goods brought to the godown are not weighed, but the bags containing them are counted. This leaves a loophole for the employees who remove a portion of the grain and sell it secretly for their private gain. It would, therefore, be desirable to weigh the grains and to allow a margin for refraction and loss of moisture in due course.

### Finance

Apart from godowns, there should be proper financing of the sale societies. The problem has no doubt been partly dealt with in what has been

said above. It may be pointed out here that if the sale societies are in the evolutionary stage and if the co-operative credit structure is under deterioration and bad repute, financial help should be secured from the central bank of the country, the State and even the commercial banks. - 'No help unless you satisfy these conditions' type of attitude will not be helpful. Thus, in India, it is undesirable to refuse finance unless warehouse receipts are produced. We know that the Reserve Bank of India demands that the documents of title (to goods) should have been transferred before they are presented to it for discount. But these documents cannot be created unless we have warehouses in the country. The situation can be improved if the Government was to allow the marketing societies to issue negotiable warehouse receipts against goods kept in their godowns. Alternately, action may be taken to promote the establishment of warehouses. Mention may be made of the step taken in Bombay (1947) for licensing warehouses and of the resolve of the Government to release the godowns built for the civil supplies department during the war so that they may serve as nucleus for warehouses. Certain legal responsibilities are being laid for the warehouses in regard to safety, separate storage, grading etc., of the goods of the individuals.

### Transport & receipts

Successful pooling of the produce is also hampered by transport difficulties. Greater the transport facilities offered by the marketing unions, federations and the State, greater shall be the pro-

gress of the sale societies. The co-operatives may arrange for transport vehicles, and the public authority may undertake improvement of the road surface.

### Location and Link

Another factor for the successful operation of the marketing co-operatives is a proper distribution of the societies both on the geographical and market basis. For the sale of commodities which do not call for expert grading and processing and which are to be sold in the neighbouring regions marketing co-operatives may be formed on the geographical basis. For commercial crops and export crops, it will be desirable to undertake special care in grading and processing and so the societies may be organised in important markets with a view to secure a large volume of business in order to enable the society to procure and pay for costly tools and personnel.

The common idea behind both these bases of organisation is to bring about the pooling of the produce. The society is not only to collect the produce of the different members for sale in a local market but in case it comes to be boycotted by a body of private wholesalers and dealers, it should have the facility to send its commodities to a higher unit—say, the marketing union in a district market—and the union may, if necessary, pass them to a provincial marketing union. The various provincial marketing unions can work in mutual co-operation with a view to facilitate the better distribution of the produce through interprovincial trade. The main hindrance to the pooling of the

produce is likely to arise on the cultivators' side, but it shall lose its importance in due course when the cultivators understand the advantages of grading and when they ultimately adopt the practice of growing improved and standardised varieties. Once the variety of a commodity is standardised, for a village or a group of villages, the objection to pooling would disappear.

In connection with the organisation of marketing co-operatives, it must also be made clear that for certain commodities the system of federation may be suitable. For others it may be more desirable to organise branches of the central societies. In the case of the federations, the primary societies are established first and later these primaries form a federation and promise to be guided by it. But they do not feel that they must accept the guidance of the federation. Instead, they feel that they are a member of the federation consequently any member of the federation may ignore the advice and rules of the federation. On the other hand, if branches of a central organisation are established in different areas (of course, on the co-operative basis) they shall feel that they have been brought into existence by the central organisation. In other words, while the members of a federation feel like being its makers, the branches look upon themselves as being the creation of the central organisation with the result that they are more loyal. Where, however, there already exist primary societies and there is simultaneously a provincial marketing society, it is necessary to link the two. If the provincial society opens its branches in areas

where primary societies are already working, the danger is that the latter may not think it as important to sell to, or to sell through, the provincial marketing society, as they would if they had combined into a provincial federation. Such a situation exists to a great extent in the Bombay Province.

### Management

The success of the marketing co-operative depends to a large extent on the efficiency of their management. The office-bearers and the managing committee must have the spirit of service, must be reliable and must possess the necessary technical knowledge to manage the society successfully. It will not be preferable to maintain for long periods office-bearers who are honorary workers or who get a small honorarium or a low salary. As soon as practicable, they should be given a fair and adequate money return for their services. In a country, where poverty prevails it will be very difficult to secure fair wages for the workers of the co-operative and it shall be preferable to promise the workers a share in the profits in order to provide them with an incentive to make sincere and zealous attempt to further the progress of the society. With a view to secure a sufficient supply of such workers, it may be desirable to carry on propaganda among the educated and to stress to those coming from the rural areas the desirability of their taking up the leadership of such societies in their areas. Necessary training of such persons may be the function of the regional co-operative department.

### Membership

As regards the membership of the co-opera-

tives, it need not be confined to the cultivators. With a view to secure easy finance it may be extended to credit societies, and in order to secure more direct touch with the consumers it may be extended to the co-operative stores. This should not create difficulties in the distribution of profit which shall go to the members in proportion to the sales affected through the society

### (1) Liability

Though limited liability is desirable, a guaranteed liability may be adopted. Either the value of the share may be kept high and only a portion of it collected, or the members may agree to undertake liability upto a number of times of the share value

### Sale Societies and the State

The State can and does play a very important part in the progress of the marketing societies. In the first instance it can undertake survey and research work. Secondly, it can take up the developmental function and organise marketing societies. Thirdly, it can provide the societies with market intelligence by issuing periodical bulletins and directories. This is more important in a country where co-operative marketing societies are still in the primary stage. Fourthly, in a country like India, the State can place its marketing staff under the co-operative department. The objection to this would be that the staff may also be called upon to assist the Co-operative Department in organising societies for growing different crops. So long as the marketing staff can be spared this function, it shall be desirable to have them placed under

the co-operative department. Fifthly, the State can grant subsidies and loans for the provision of storage facility and can promote grading and standardisation in due course. If it shall be preferable to pass the function of grading and standardisation to the marketing unions. It is found that warehouses are absent, the State may help the societies to issue negotiable warehouse receipts, which may be guaranteed either by the State or by the Central Co-operative Banks. The State can also enable the societies to compete successfully with the private dealers by establishing regulated markets\*. Such markets would secure the use of proper weights and measures, curtail the various deductions made, ensure proper methods of bidding and offer proper facilities to the persons bringing the produce to the market. But it is essential that the committee managing the affairs of the regulated market must have proper representation of the growers. Should the members of the managing committee be mostly drawn from among the wholesalers and commission agents, there shall be a danger that it shall favour the dealers rather than the growers. Lastly, to some extent the State can even patronise the marketing societies by purchasing its own requirements from them.

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\* The U.P. Government have recently passed an Act to standardise weights and measures. The problem is also being considered at the All India level by the Indian Standards Institution, bearing in mind whether the present system be replaced by the decimal system. However the U.P. Government have not yet taken up for consideration the regulation of Markets-Bill 1939. The use of proper weights was also one of benefits provided for in the bill. It is high time that the provincial government takes it for consideration now.



## CHAPTER V

### CO OPERATIVE SUPPLY SOCIETIES

A production society in agriculture may take the form of a cattle breeding society an irrigation society an anti erosion society a seed store or some other supply society a consolidation society or a farming society

Of these the supply society and the farming society are specially important and in this chapter the first shall be considered. The area of operation of a supply society may be one village or more than one village so that the commodity or service supplied by it shall draw sufficient custom. In the case of seeds and fertilisers it may be desirable to have a society for only one or two villages. On the other hand in the case of implements the society may extend its activities to a number of villages. The membership of the supply society may be open to all and the share value may be a nominal figure. Later when the society has progressed the question may be considered whether the suppliers may also be admitted to the membership. In general it would be preferable to have the representation of the suppliers on the managing committee and not to have them as members\*.

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\* If a private supplier becomes a member of a co operative supply society it is possible that in due course he may demand a share in the profits. This may have some justification if he charges a lower rate on the supplies to the society. But lower rates could be obtained even when he is not a member.

The commodities dealt in by the society may be supplied to the members and the non-members alike. As a general rule the address of the purchaser should be noted in the sales register. It may be explained to the non-members that they cannot secure a share in the profits of the society unless they become members.

### Price and Payment.

Theoretically, the price at which a commodity is sold should be the current one, but in the rural areas the 'current price' would be rather misleading and irrelevant, because there are likely to be few other dealers. In practice, therefore, the price has to be fixed arbitrarily at the discretion of the managing committee. It may, however, be noted that the price should generally be the cost price plus a small percentage for expenses, reserve and profit. In certain countries where the cultivators attach greater importance to reduced prices, it may be desirable not to go in for profits. As regards the method of payment, cash payment is always desirable but the society may, if necessary, allow a small period between delivery and payment. Strictly speaking, this would mean granting of credit; but in another sense, this may not be called sales against credit, because credit really means that the payment is uncertain and that the date of payment can be extended.

However, in the absence of cash payment, it would be desirable for the society to work in co-operation with credit societies. Loans may be

granted by the credit society in the form of orders to the supply society. The supply society may in turn, if possible pay for its purchases in cheques drawn on the credit society. The supply society may also arrange for a loan to one of its members from a credit society and may accept the loan amount as payment for a commodity supplied to the member.

As a digression it may be mentioned that the supply society may also work in co-ordination with the local marketing society. In this case the payment to the supply society would be guaranteed as a deduction from the sale proceeds of the members' produce.

### What to Sell and Stock ?

In the beginning a supply society cannot run the risk of purchasing commodity on speculation without already ensuring its sale. It ought to buy only what is certain to be sold. It may have to act, as the French supply societies once did as letter box for collecting orders bulking them for transmission to the dealers and charging on the saving effected a small percentage for its own expenses. It shall enable it to adjust the supply to demand. In due course the society shall have to lay by stocks. It may be that in certain cases these stocks may be necessary from the very outset. But in case there is a danger of greater fluctuation of prices and deterioration of quality, holding of stocks would not be desirable in the case of weaker societies. If practicable, the society may make it compulsory for the members to purchase those commodities which are dealt in by the society, from

the society, though in general, it is desirable to give the member an option and secure his custom by maintaining quality of service and reduction in cost

### **Sale of Household Goods.**

The other question that arises is 'Should the supply society also deal in household goods?' In certain countries this is not permissible by law, specially where this is calculated to sow the seed of division and discord among the other shopkeepers. In a country like India the argument is not tenable because the cultivator gets such requirements from outside the village. The supply societies however, may not pay full attention to the sale of household requirements but may employ their powers to carry it 'as a rod to be exhibited on the mantelpiece with a view to keep the dealers in good behaviour' (Wolff)

### **Pushing Sales and Progress**

As soon as practicable, the society should join hands with the neighbouring supply societies and form a federation or wholesale society to pool their requirements and to make collective purchases. It is possible that in a country, central supply societies may have to be organised first. This would be the case if there are already existing supply societies whose progress is hampered due to "exploitation by dealers" and a high expense-ratio. It is necessary that the supply society should secure the patronage and guidance of the well-to-do and the educated persons in the area of their operation. The cultivator may not go in for its goods if they are in

any way different from what he has been using. He will like to be convinced of the utility of the new varieties. This is easy to secure if the big men of the village first use them or if in due course (when the society has made substantial progress) it can itself give a demonstration.

Besides the review of work, the distribution of profits and the election of office-bearers, the opportunity provided by the annual general meeting should also be used to discuss the relative merits of the various commodities which have been supplied by the society in the past or which can be secured. The general meeting should also be utilised to convey to the members useful information about problems of the agriculturists.

### State Aid

The society may look to the state for transport facilities and for the finance which may be initially required by it. The state can also help the society in popularising useful commodities through exhibitions and displays at the village markets and fairs. The state may also undertake research for making improvements and for removing defects which may be pointed out by the society in regard to the commodities which it deals in.

## CHAPTER VI

### CO-OPERATIVE FARMING SOCIETIES

The title of this chapter is slightly misleading. The greater portion of the chapter shall be devoted to a discussion of the forms of application of the principles of co-operation to farming. What is farming? Does it refer only to operations on the farm such as cultivation, sowing, irrigation, weeding, protection of the crop from insects, pests and animals, and harvesting. No. Just as the farmer is not supposed to perform operations only on the farm, farming should not be supposed to involve only these operations, particularly not, when it is prefixed by the word co-operative. However, the term has raised a lot of controversy. To give an idea of this a reference may be made to three definitions. One, in co-operative farming 'each cultivator would retain his rights in his own land, but cultivation operations would be carried on jointly. The expenditure would be met from a common fund and deducted from the gross income. The net income would then be distributed among the cultivators in proportion to the land belonging to each'<sup>1</sup>. The definition begs the point whether the cultivators would work on the farms free or as paid em-

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1 Vide Memorandum on the Development of Agriculture and Animal Husbandry in India of the Advisory Board of the Imperial Council of Agricultural Research 1914, Pg 3c

ployees. It also does not lay any restrictions in regard to the nature of functions which the cultivators may undertake. It may refer to farming operation in the very narrow sense or to joint credit, purchase and even insurance.

Two<sup>2</sup>, co-operative farming must imply farming of which one element is the merging of small separate farms into larger ones. It must recognise individual's right in land. It is not material to the definition whether or not the individual owners have the right to withdraw their holdings physically from the co-operative farm. But it is at least essential that if any one wishes to leave the farm, he should receive due compensation for the rights finally surrendered by him. In it ownership should not pass to the society as a whole (i.e. the state). The definition does not offer any solution for the condition when the intermediaries are abolished and the ownership rights in land vest in the state. Will a society formed in that case for farming purposes be a co-operative farming society? If the owner may not be allowed to withdraw his holding physically from the co-operative farm, the complete right of individual ownership would stand impaired. Individual ownership is not the essence of co-operation. The definition also implicitly believes that with workers getting differential wages efficiency is greater than that in the case of peasant proprietorship or better still, in the case of family-farming.

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2 Syt Tarlok Singh, the author of 'Poverty and Social Change'

Take a third definition.<sup>3</sup> Co-operative farming is voluntary and under democratic control. The policy is not dictated from outside and the individual enjoys freedom and initiative for work on the farm. The workers receive wages according to prevailing rates and all profits are distributed according to the land brought in. Peasant proprietorship is the ultimate aim. Since we already have separate treatment of co-operative credit, purchase, insurance etc., co-operative farming should be taken to include such activities as joint reclamation, joint use of machines, ploughing, trenching, water raising and crop-protection. But such activities as the paying of detailed attention to the plant from the time of sowing to harvesting, control of pests, and the care of livestock should be left to the individual as he is best fitted for these.

These definitions indicate that different people are likely to view the matter from different angles trying to keep the conditions prevailing in their part of the country. Really the remedy lies in adopting different forms of the application of co-operative principles to farming or better to agriculture. The need of the hour is to try different forms and see which is suitable for which area. The methods most suitable for a particular area should be introduced there. We will therefore discuss the various forms confining our attention to the right of ownership and the right of use.

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3 Syt K C Ramakrishnan. A very useful article by him is included as an appendix to this Chapter by the kind permission of the management of the *Indian Co-operative Review*, as it summarises the various experiments in regard to joint farming and brings out the essence of co-operative farming as given above.



## Co-operation and Farming

The application of co-operation to farming may take four forms. Firstly, there may be individual ownership and individual operatorship, and the co-operative society may be organised from time to time to consolidate the holdings of the individual cultivators. After the work of consolidation is over, the society may continue to guide the cultivators and to supply productive requirements and services. In other words, it may then take the form of a supply society. It shall be very much the better farming society as contemplated by the Co-operative Planning Committee with the difference that the members shall not have to agree to follow any plan of cultivation laid down by it.

Secondly, there may be individual ownership and collective operatorship. Such a society too shall not make any change in the tenurial system but would secure for its members the advantages of large scale farming.

Thirdly, there may be collective ownership and individual operatorship. In this case the society may be organised where new land is brought under cultivation. Thus if the colonies of cultivating ex-servicemen are created in India, they may form such a society. A society may also be organised in regions already under cultivation provided the owners can be induced or compelled to exchange their rights for shares in the society or for cash. Case the members shall be their own landlords, which would mean fixity of tenure and free dom from the oppressions of the zamindar.

Fourthly, there may be collective ownership and collective operatorship, in which case the workers on the farm shall be neither individual owners nor individual cultivators. The co-operative society possesses a freehold or a leasehold on the land and uses its members as paid workers to cultivate the land according to its crop-plan.

### Collective Owner-Operatorship

It shall depend on the prevailing economic conditions, the social customs and the psychological make-up of the people which of these forms can be successfully adopted. If there is too much love for land and if there are little prospects for simultaneous and rapid non-agricultural employment, it may not be possible to organise a society for collective owner-operatorship, except in new land. In order to organise such societies for cultivated areas, compulsion shall have to be used and employment shall have to be found for a large number of persons who shall not be required on land. Such societies have been organised in Russia and although it has been possible to find alternative employment, the efficiency of labour has been maintained but for the dictatorial management of the Kolkhoz. Even so, the Soviet Government had to allot a homestead plot to each peasant family to keep up the interest of the villagers in the Kolkhoz land. Yet the members are apt to get degraded into servants of the foreman and the farm-manager. Incidentally, the circumstances under which collectivisation was introduced and the immediate reactions of the peasantry cannot be ignored. India is not prepared for such a revolutionary step.

Secondly, in Russia, just after collectivisation, the peasants destroyed their animals, though deliberate sabotage is not the only explanation : each peasant might well have naively assumed that animals for collective agriculture would be supplied, and that he might as well make what he could out of his own. However, in America where such a dictatorial method has not been adopted, it has been found that no matter what the wages are, the efficiency is not as great as in the case of a person working on his own farm. Therefore, from the long period point of view collective owner-operatorship is undesirable.

### Collective Owner-non-Operatorship

In a society for collective ownership and individual operatorship the problem would be "Who should be allowed a particular land on the death of a member?" The society would no doubt divide the land into economic units and allot one to each member on whose death it should revert to it. It may have full discretion to allot a holding to any capable person preferably from the family of the deceased. In other words, the society would be granting to its members life tenancy. Permanent tenancy can also be conferred. In that case a rule shall have to be made that the plot cannot be subdivided and that the future cultivators of the plot would be decided upon with the approval of the society. The society may also lay down that the plot cannot be mortgaged. The society can chalk out a plan of cultivation to be followed by the members. It may offer other facilities including marketing but it shall be at the option of the members whether to take advantage of it or not.

As already mentioned, such societies can be easily organised in culturable waste land and in newly opened land, but it shall be difficult to organise them in cultivated areas unless it is decided to establish them, through legal compulsion. If in a province the State takes over the ownership rights it can easily create such societies.

### Collective non-owner-operators

But a society organised for collective operatorship under individual ownership shall not only have a crop-plan and arrange for its own supplies and marketing but shall undertake cultivation. The member-workers may be paid daily wages or on the piece-work basis. In the case of the latter arrangement, a system of work-day-units may be evolved and adopted on the lines of the collective farms in Russia. If a member will have the right to take out his land physically on withdrawal, an agreement may be made between the society and each member that if any improvement is made on his plot of land he will repay its cost when he ceases to belong to the society. The society may either distribute the produce to the members or sell the produce and distribute cash, or do both. In case it distributes the produce, the problem would arise 'At what rate should the different products be valued?' Unless the society decides to provide each member with sufficient necessary food and non-food produce in lieu of the wages, the society would be well advised to market the produce and distribute cash. A portion of the produce may be sold to consumers in the village specially to the

members and if possible at reduced rates. For sometime it would be desirable to adopt the system of cash wages and cash sales. Should the society find it difficult to make sales itself, it may work in co-operation with the nearest marketing society. Even so, if the number of members in the society becomes large, any one member shall be apt to have less interest in work than he would if he had been working on a plot allotted to him permanently or for a long period. Thus even in this system inefficiency is likely to creep in, and this makes the system undesirable.

Of the four systems, the society based on individual owner-operatorship appears to be in the nature of the preliminary stage and that for collective ownership but individual operatorship seems to be the best from the long period point of view. It is therefore advisable to consider some more points arising in that connection. If the society is organised in the cultivated areas, each member shall have to be given the right to withdraw.<sup>4</sup> If a member does withdraw, it shall be fair that he be given back the land or the value of the land that he surrendered. But it may not be advisable to give back the same

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4 It is possible to argue that if the cooperative farming society proves more beneficial to the members, none of them would leave it. But theoretically the possibility remains. Also, it cannot be accepted that there will be no movement of person from agriculture to non-agricultural fields and vice versa. A son of a cooperator may have a taste for urban jobs, may be more fit for non-agricultural work or may like to cultivate individually.

land as it is likely to affect the plan of the society. Hence the choice may be "land elsewhere or cash"

In the U S S R withdrawal is similarly permitted but presumably to discourage withdrawals, the member cannot get back full value of the land surrendered. On withdrawal a member loses one-fourth and gets only three-fourths of what he brought in. But the condition that the member cannot get his old land but "land elsewhere" wherever it may be available (it may be available in distant out of the way places or may not be available at all)—is a sufficient punishment. Alternatively, if the outgoing member wants land, he may be allotted a compact block equal to three-fourths of the original land in value out of and at one end of the land belonging to the society. This does not mean that the flow of persons from non-agricultural fields to agriculture should be stopped. Such an action would be against economy, equal opportunity and the best development of human personality. For prospective purchasers land shall have to be made available though it may be at a premium.

However, when voluntary withdrawal would be permitted, it may also be considered whether an individual with land should be allowed to become a member "as of right" or "by election provided his interest is not considered to conflict with that of society." A State which creates such societies in *cultivated areas through compulsion* may well lay it down that every such individual shall have the right to membership. It is so in Russia, but the

co-operative principle shall also work satisfactorily. It must also be considered what rights shall be enjoyed by one who thus brings land to the society. The member shall no doubt get a dividend proportional to the value of the land. In addition he may be allowed the right to work on the farm: but such a commitment shall not be in the interest of farming. If all members are to be provided with work on the farm, it shall not be possible to bring about better organisation and technique of production which involve the use of labour-saving (and time-saving) devices. It may however be possible to give an understanding that work shall be provided, if non-agricultural works are also to be organised by the same society.

One assumption that has been made in the last paragraph is that all owners of land are also workers on land. We know that in India a large percentage of land is owned by non-cultivators. Still the number of small landholders is large and so far as they are concerned the argument of the last paragraph holds good. But there is still a large number of non-owner cultivators who have heritable tenancy rights and even where societies are formed for them it shall not be possible to provide for all of them in agriculture. Hence, the only undertaking that can be given is to provide work, agricultural or non-agricultural. If tenants and owners of land engaged in agriculture are not provided with work in agriculture a great handicap is likely to face the promoters of the co-operative farming societies. The peasants would simply

## COOPERATIVE FARMING SOCIETIES

dislike and may even boycott such innovations. The best solution to this, is, as is agreed to by the Co-operative Planning Committee also, "to get the scheme successfully working in a few villages in each Tehsil and then give the widest publicity in the form of leaflets and wall notices, to the economic benefits obtained, at the same time urging the peasants of neighbouring villages to visit the experiment and satisfy themselves on the spot." These experiments should be conducted not only with regard to any one form of co-operative farming society but all the four types of the societies.

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APPENDIX I TO CHAPTER VI  
WHAT IS CO-OPERATIVE FARMING 200  
A REVIEW OF EXPERIMENTS

BY

K C RAMAKRISHNAN

Co operative farming figures conspicuously among the plans of post-war development of agriculture. But the term has been used in different senses, some of them alien to the spirit and tradition of co-operation. Even with co-operators, it seems to be an elastic concept. It is worthwhile noting in what senses it has been used in the past and is still being used and come to an understanding as to the sense in which co-operators at last should use the term.

It is obviously wrong to call farming co-operative, if it is carried on independently by individual owners or tenants, who come together and organize not the whole or any part of the actual process of farming as a joint enterprise, but only the supply of credit agriculture or domestic requirements, the processing and marketing of produce. These are comparatively easier forms of co-operation, in which a high degree of success has been achieved, if not in India yet, in countries abroad. However much these may aid

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\*Reprinted from Indian Cooperative Review, April-June 1946

farming, they cannot constitute farming. On the other hand, it has been held that the acquisition of independent status as small-holders carrying on cultivation individually is a *sine qua non* of co-operation in the other lines mentioned above, for which the Scandinavian countries have become famous. The agrarian movements of the twentieth century in southern and eastern Europe all point this way. There are eminent co-operators who hold that it is not the aim, and it should not be the aim, of co-operation to do joint farming. For instance, Dr C R Eay, Chairman of the Horace Plunkett Foundation asserts

"Co-operation does not extend to the act of farming. Co-operative agriculture does not mean collective farming but independently operated farms linked together co-operatively for credit, for supply, for processing, sale of produce etc. Northern Europe has proved to the hilt that the highest degree of technical excellence is entirely compatible with family farming, but on condition that (i) the land unit is the subject of special stage guardianship and (ii) individual family effort is supplemented by group effort in purchase, processing sale etc."

The role of agricultural co-operation has been delimited as follows by an American writer.

"The real mission of agricultural co-operation is not to bring about a fundamental reconstruction of the business regime but rather to save

the farmer from the disabilities entailed by the size of his business and his lack of training in the ways of a commercial civilization. It attempts not to displace but merely to perfect the existing economic order.

"Because of the individualism of the farmer there are only rare cases of collective cultivation of the soil. With the exception of a few instances in Italy and Russia, which are the result of peculiar circumstances, one would search in vain for genuine examples of co-operative farming."<sup>2</sup>

### Co-operative and Communist Colonies

We do not find in the history of the co-operative movement such a clear cut notion of the limits to which co-operation could go. A number of experiments have been tried. Some of them by the pioneers of the movement, at co-operative farming in the sense of joint cultivation of land owned or rented in common by the members. 2 3- '2

Some of them went to the extent of abolishing private property in land, in the belief that property was the chief cause of dissensions among men. Some insisted not only on joint cultivation of land pooled together but on the distribution of income according to work done, or even according to needs. There were a few who went still further and prescribed community of dwelling and of consumption. Among them the essentially religious communities founded by

<sup>2</sup> Encyclopaedia of Social Sciences, Vol. 1, p. 521

the Jesuits and Quakers were the longest-lived because of the habit of discipline and obedience to St Paul's command - 'Bear ye one another's burdens'

There were agrarian communities called "Enclaves" in America "little socialistic islands emerging from a capitalistic ocean," where ownership of land alone was common, but not that of anything else. The land was divided into shares and assigned to members for a long period of years, each holder being free to live as he pleases and reap what he has sown. In spite of this it was admitted that "the colonists do not put the same energy into their work as the neighbouring peasants do." Such is the power of permanent ownership of land by individuals.

The Zionist colonies in Palestine founded in the course of the last sixty years for the benefit of Jews were of all types "from individualistic to communistic, and have passed through every intermediate stage of co-operation." Though they have done remarkably well on the whole, developing the tracts taken up for cultivation, they have had to depend too much on the support of foreign governments, and the Jewish National Fund subscribed for by the rich philanthropic Jews abroad, to be considered self-supporting and therefore entitled to be deemed truly co-operative.

Almost all the societies, co-operative or communist, (not much distinction was drawn between the two) were founded not by common men (like the Pioneers of the Rochdale Store), but by intellectual or religious leaders, whose aim was to

"create an environment in which they could find satisfaction for that lofty need of justice and freedom" which they could not find in the world as it was and to "remove class inequality which was the principal cause of social strife and to abolish the main factor in producing that inequality, viz, the pursuit of profit" They wished to make conditions of work easier and pleasanter by making all members do some useful work and by doing away with the needless goods and services. As Charles Gide says, these are worthy ideals but are capable of being realised without going so far as communism or collectivism, which sacrifices family life and individual liberty. The intellectuals as well as the religious disciples indeed got on better as a rule in these colonies, generally founded in foreign countries, than the proletarian followers who would not put up with difficulties, and were less energetic as workers and more exacting as consumers. They indulged in quarrels and made life miserable for themselves and others and ruined the societies. The hope had to be abandoned that men would be changed by environment. What was needed was the creation of new men with ethical and spiritual qualities which are of the first importance in community life<sup>3</sup>

### III. Consumers' Co-operative Farming

Co-operative farming has been conceived in a different sense altogether by the leaders of the consumers' movement, particularly in Great Britain, who developed in the closing quarter of the last cen-

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<sup>3</sup> Charles Gide, *Communist and Co operative Colonies*, Conclusion

tury an ideology opposed to that of the agricultural producers' movement which was growing strong in Europe. They believed that production in agriculture as well as in industry could be carried on efficiently, and distribution done equitably, not by small struggling peasants nor by middlemen farmers but by consumers coming together in a co-operative organization on a national scale and carrying on farming on a large scale and on scientific lines as a branch of their manifold activities by wage-paid workers. Originally the Pioneers of the movement had intended to take up farming as a side line on a small scale with a view to providing employment for members thrown out of work in factories. In this they did not succeed, nor were they serious. But the attitude became more aggressive and competitive as the agricultural movement developed all over Europe.

The Co-operative Wholesales of England and Scotland have invested capital, and carried on some notable agricultural enterprises—dairy farms, piggeries etc—not only at home, but also in Ireland and Denmark. More remarkable are their joint enterprises in the wheat farms of Canada and the tea estates in Ceylon and Malabar, which are carried on with wage-paid native labour just like any joint-stock enterprise. None of these has been a conspicuous success financially or co-operatively. After alienating the sympathies of fellow co-operators in the agricultural field, they have realised that it is wiser to deal with the great agricultural co-operative wholesales so far as the bulk of agricultural products are concerned.

Committees for inter-co-operative relations have been set up at national and international levels. There is at present a better understanding among the leaders of the consumers' movement that farming is best carried on when it is self-directed by the cultivator himself and not managed from above, though he may need a lot of help in other directions<sup>1</sup>.

#### IV Joint Leasing Societies

Among the early experiments tried by co-operators was the joint leasing of lands by a society for would-be-tenant members from some big landlords who were induced to rent out their lands to the society partly out of sympathy for actual tillers of the soil and partly out of a feeling of convenience in dealing with a society which would stand security for members instead of with a number of farmers. The most notable example was that of the enterprise at Ralahine which however failed---not because of any fault of the members or the society but because of the bankruptcy of the landlord, whose land was attached by creditors. The modern co-operative Small Holding Association has been successfully leasing farm land from landlords and subdividing it in smaller lots to members for individual cultivation itself guaranteeing rent payment to the landlords. A number of societies of this type were functioning in several countries in Europe before the war, side by side with the land reforms breaking up the big estates. The *Affittanze Collettive* of Italy were landholding

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<sup>1</sup> Report of the American Committee on European Co-operation.

and operating syndicates which acquired or leased and operated land as a whole on a share or cash rental basis. They invested working capital and took risks. They sometimes subdivided and leased pieces of land to different members who wished to carry on cultivation of their own<sup>1</sup>

The effect of the agrarian movement from 1875 to 1925 in favour of small holding with ownership or security of tenure was to multiply such holdings and link them together in co-operative organizations for purposes other than actual farming. Many of these small holders, and some large farmers too who were helped to buy up the farms they had been cultivating on lease involved themselves in debt which they were not able to redeem when prices of produce fell. They had pledged themselves up to the hilt and were not able to borrow enough working capital. Meanwhile there was steady progress in the science and technique of agriculture and in the invention of machinery which required for their full effects to be seen larger sized farms especially in the cultivation of cereals. Peasant proprietors were conservative by instinct or by the influence of environment. The sentiment in their favour gave way, even in a conservative country like England, to nationalisation of land and mechanisation of agriculture.

### V. Collective Farming in U S S. R.

In Soviet Russia there were other forces

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<sup>1</sup> *Encyclopaedia of Social Sciences* Vol 1, p. 516 *Co-operative Organisations and Postwar Relief* (ILO) p 73



which impelled immediate action in favour of nationalisation of land and collectivisation of farming. Most of the tillers of soil, who had been before the Bolshevik revolution semi-feudal serfs, though emancipated from serfdom and allowed to occupy the lands they had been cultivating, were not permitted to become peasant proprietors as in other European countries, much as they would have liked to do. Lenin and his followers were keen on abolishing private property in land as well as in other means of production and the conversion of old holdings into collective farms for carrying on cultivation jointly and on a large scale, using electric power, tractors, harvesters, etc. His aim was not only to change the mentality of the peasant opposed to the revolution but to produce more food crops and raw materials to feed the industrial workers and large-scale industries and to direct the surplus labour on land to such industries. Immense were the difficulties he had to encounter, but his plan succeeded, even if he did not live to see it, because of the power of the State and the enormous natural resources of the country and negatively because of the lack of any tradition of peasant proprietorship in Russia.

Collective farming, as it is practised in U.S.S.R., is by no means the logical development of co-operative farming. It is really different from it. Collective farming is built on the basis of common ownership of land and common cultivation of land by all the members. They are to surrender their individual rights of ownership and of cultivation, if they had any. In co-operative farming members continue to be owners of the land they have agreed

to pool together for the purpose of farming for a specified period or for ever. Co-operative farming is an entirely voluntary organisation, though no one has a right to be admitted to membership as a matter of course. In collective farming on the other hand every landholder or the cultivator in a locality has a right to membership; but it is doubtful if he has any option to stay away. Only less than 4 per cent of cultivators are said to remain aloof. Farming is carried on here on a large scale with the use of power and machinery according to a plan laid out by the State from which only slight deviation would be permitted to the controlling body. Co-operative farming is more independent and permits no interference. The workers on the collective farm receive as their remuneration a share of the total income after payment is made for seeds, manures, implements and machinery and a contribution is paid to the State the share of which has been steadily reduced. The remuneration is distributed among different workers according to the quantity and quality of work turned out, of which a record is kept; and no discrimination is made against women who are engaged in many jobs including the driving of tractors. Co-operative farming pays wages to workers whether members are not at prevailing rates and distributes net profits according to the value of the land contributed.

In fact comparisons are not fair between the two, as co-operative farming is still in the region of experiment, it has been attempted only on a small scale and in a sporadic way here and there,

while collective farming has been carried on a colossal scale and claims tremendous achievements. Before the war, there were a quarter of million collective farms, engaging 20 million farm families employing half a million tractors, which ploughed up three-fourths of the land of U.S.S.R. Thanks to the collective farms, the crop area of the country increased by 75 million acres and the grain harvested exceeded 7,000 million poods as against 5,000 million poods of Tsarist Russia. The system, it is claimed, has wiped out the slovenly farming on scattered strips of land, eliminated a multitude of crying wastes in seed, human and animal labour, raised the fertility of soil, weeded out the scrub breeds of stock and replaced them by the best breeds. The war indeed would not have been won, nor recouping been so rapid without the collective farms<sup>6</sup>. One development, however is particularly noteworthy, the concession to the instinct of possession of individual members of the collective farm. Each member can have a dwelling house for his family, a plot of land not exceeding 2.4 acres as garden land attached to the house. 2 or 3 cows, 2 or 3 pigs, 20 sheep and poultry which he can rear, and he can sell them or their products in exchange for consumers' goods at the market. It has been estimated that 60 per cent of the cows and over 50 per cent of pigs and sheep are privately owned.

## VI Experiments in Joint Farming in India

All this is remarkable, almost incredible, but it

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<sup>6</sup> *Year-Book of Agricultural Co-operation*, (N. Barou), 1943-44, p. 155

is very doubtful if the system can be adopted in a country like India wedded to a capitalist economy, where the tradition of private ownership or occupancy of land in small bits has grown too strong in the last hundred years.

Experiments at some form or other of co-operative farming reviewed above have been rare in India, and the few that have been tried have not been promising. There is still a vague faith in co-operative farming as the remedy for many a rural ill. It has yet to be realised that no kind of co-operative farming can succeed without some basic reforms in our rural economy.

For over twenty years now, societies have been organised in the Madras Presidency to enable landless labourers to obtain lands on long lease to be divided among the members for individual cultivation. They were called societies for joint farming, perhaps because it was intended to purchase cattle and improved ploughs to be used in turn by members, who could not each get a holding big enough to support an expensive plough and a pair of bullocks. Such societies were formed specially for the depressed class labourers who used to be engaged as tenants-at-will by the bigger farmers to whom alone the big landlords, individuals as well as institutions like temples and mutts would entrust their lands on lease for a number of years, three or five at a stretch. These tenants at-will with a precarious tenure were little better than wage paid labourers; they were in fact share-croppers receiving advances of seed, grain, manures and the like from the big farmers and agreed to pay a high share of the produce.

There was no joint farming done by these societies or by those which were organised in the deltas of the Kistna and Godavari where poor labourers were allowed to take up for cultivation what are known as Larka lands, which are quite fertile but liable to be submerged by floods. Some of these societies did remarkably well on account of the leadership of a prominent local co operator and the vigilance exercised by him and his staff.

An experiment in what was called co-operative farming was tried in Nadia district in Bengal by an enthusiastic District Collector. Pieces of land were taken on lease from some local landholders, and they were consolidated into a few compact blocks of decent size, each of which was entrusted to some cultivators not all the original owners of the pieces of land. The aim was to find out, and demonstrate successful the economies of cultivation on a consolidated larger holding instead of on small scattered plots with a view to induce the owners of the latter to get their holdings consolidated. It is a case of persuasion by demonstration rather than by mere arguments of authorities. The results were said to be encouraging by the inspirer and organiser of the scheme and it received wide publicity. But we regret to learn that the experiment was not continued on account of the transfer of the District Collector and the lack of enthusiasm of local men<sup>2</sup>.

The authors of the Bombay Plan of Economic

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<sup>2</sup> *Co operative Farming* By S K Day

<sup>3</sup> Vide *The Indian Co-operative Review*, 1946, Pt I pp 96 97

Development advocated some such scheme of 'Co-operative farming' though they contemplated 'some measure of compulsion' for carrying it through. What they wanted was consolidation of cropping on holdings which were pooled for a temporary period "without depriving the cultivators of their right of ownership of the existing holdings." Such experiments are not likely to lead to enduring results, and they can only postpone the carrying out of the only solution for the evil of excessive fragmentation and subdivision—the pooling of all pieces of land, by compulsion if necessary, and their restripment and distribution in compact blocks, none of a size too small for engaging the labour of a cultivator and his family. Rights of ownership may be respected and borne in mind in the reallocation of holdings and their valuation, but there should be no insistence on restoring particular pieces of land to original owners nor should the latter be compelled to cultivate their own holdings.

It is not necessary in the interests of agricultural efficiency that every piece of land should be cultivated only and always by its owner. While preference should be given to owner cultivators in new assignment of lands it must be recognised that there are occasions when owners of old lands may have to entrust their lands to tenants for a while, if not for ever, e.g., widows and minors belonging to cultivating families. There are again certain crops which are best cultivated by tenants with special skill and experience but cannot be cultivated year after year on the same land—crops like plantains, sugarcane betel-vine. These tenants

are not anxious to stick on to a particular piece of land and try other crops. They are more anxious to take on lease different pieces of land and try their crops on them. A society of tenants might indeed do a great service to them by the joint leasing of lands and distributing the same to individual cultivators. Some parts of farming like the digging of trenches and ridge-ploughing might well be attempted by the society itself. In fact, it has long been the custom for betel-vine cultivators in parts of Madras, who require just a few cents of land each to take on joint lease a large area and also perform some other services before subdividing it among themselves for cultivation of the vine.

## VII Land Colonisation Societies in Madras

Land colonisation societies in Madras have been hailed by some as co-operative farming. The societies have been organised in the last twenty years mostly for the benefit of the depressed classes who are generally landless labourers. The idea is to settle them on land classed as cultivable officially, but has not been taken up for cultivation, for one reason or another. A lot of help has to be given to induce people to settle; clearance of scrub jungle, laying of roads, digging of wells for drinking water, the erection of huts for dwelling, etc. The Government of Madras gave a lot of help in these matters, and gave each of the settlers a five-acre compact plot to be brought under cultivation. But only dry cultivation was possible, as it was beyond the means of anyone of these poor settlers to dig a well. Each colony had a co-operative society which raised or obtained funds from the

Government or the district Co-operative Central Bank, on the pledge of land, for the purchase of cattle, implements and seeds but not for the purpose of joint cultivation. The recovery of dues has been a rather hard task for one reason or another - the precariousness of rainfall, the destruction of crops by wild boars and the frequent absence of the settlers themselves from the colony. In fact some of the colonies visited by the writer of this paper looked deserted because of the ravages of malaria. The settlers having had a taste of that disease go back to their original homes and resume their former work as farm servants or casual labourers. But they are loath to surrender their easily gotten land of five acres in the colony. They come and plough, sow seeds and go away, entrusting the growing crop to one or other of those who continue to live in the colony, and come back again only to reap and carry away what remains of the crop. The colonists have not been well-chosen. Several of them continue to be farm servants under big landlords in the neighbourhood with whose influence they have been able to secure a place in the colony. They cannot be blamed for doing this, as a five-acre plot without a well cannot provide enough work for a cultivator and his family except for some days in the year - perhaps 40 or 50 days. If each five-acre plot had a well, there would be little excuse for the settlers to absent themselves. A garden land of five acres would provide enough work practically all through the year for an ordinary family and provide much more produce than what is needed for their standard of living.



### VIII. Conclusion

To sum up past experience, farming carried on as a joint enterprise on orthodox co-operative lines has been very rare indeed. Attempts made in the name of co-operation, but deviating from its accepted principles, have not been successful either. Collective farming of U.S.S.R. may be a material success; but it is not co-operative farming. It is not voluntary, it gives little freedom or initiative to the individual working on the farm. The control of joint enterprise is authoritarian, not democratic, and policy is dictated from outside. The worker can have none of the joy or pride of possession and the stimulus for work and resourcefulness associated with peasant-proprietorship, though not all smallholder exhibit these qualities. Most of the schemes of farming tried by co-operators abroad aimed at the acquisition, ultimately if not immediately, of an independent status for each member as a peasant-proprietor or tenant with well-secured occupancy rights. But little has been attempted or achieved on these lines in India.

Joint farming on co-operative lines right through all operations may not be necessary, or easy to work in India, and it has not been easy anywhere else. There is, however, scope for joint endeavour by co-operatively minded farmers at particular stages of farming. For instance, on lands newly taken up for cultivation, reclamation would be greatly facilitated by joint effort, while individuals might well despair of any achievement. The use of tractors, road-graders, bull-dozers and heavy sub-soil ploughs is beyond the means of

small operators, while it would be too petty a task for the State to undertake except through a co-operative society. Even on old cultivated land joint effort would be more economical in respect of deep-ploughing by tractors, digging trenches in the fields of sugar-cane or plaintain, lifting water from wells by power-pumping, protection of crops from boars and other wild animals and in the harvesting and processing of certain crops<sup>9</sup>. On the other hand, detailed attention to plants from sowing to harvesting, the control of certain pests and care of livestock are best left to individual cultivators themselves. As for the supply of credit, and buying and selling and insurance, there can be no easy substitute for co-operative activity, at any rate for smallholders. But this is not co-operative farming.

Even partial co-operative farming, nay any form of co-operation, is not likely to make much headway in our country without some rationalisation of our existing rural economy. The evils of excessive sub-division and fragmentation must be dealt with first. The new holdings should be compact and each of a size that would engage the labour of a cultivator and his family. Rent should be fixed at reasonable rates and security for tenants assured on certain conditions. Landless labourers, who would be needed at certain times, should be enabled to get at least living wages. The agency

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<sup>9</sup> For similar work carried on in 'Rural Communities and 'Land-leasing Co-operatives' in USA vide the article by M. Columba of the I.L.O. on 'The Work of the U.S. Farm Security Administration, in the *International Labour Review*, Jan-June, 1941.

that can take up all this work is the 'reconstituted village community with its Panchayat, on which all elements—land-owners, tenants, labourers and consumers—should be represented. The details of the constitution and functioning of such a body are beyond the scope of this article<sup>10</sup>

<sup>10</sup> Vide Tarlok Singh's *Poverty and Social Change*

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## CHAPTER VII

### BETTER LIVING SOCIETIES

Better living involves sacrifice, thrift and the defying of public opinion. This cannot be secured through legislation. An organisation of the inhabitants of a locality or region which has a voluntary binding on the members to observe the rules and decisions taken by it alone can bring about an improvement in the life of the members. In a better living society the members bind themselves to abide by the rules of the society and in the case of default or infringement agree to pay a penalty which may be imposed by the society. It is a method of bringing about compulsion through co-operation—the best method to change the habits and customs of conservative and superstitious villagers who would suspect every move by the State.

#### Importance

There was a time when it was considered that co operative credit societies should be organised first because credit touches the whole of a man's life and would therefore easily draw people together for their common purposes. The problem of credit—rather the problem of indebtedness—is not so important today. The great danger is that the agriculturist may continue to be a spendthrift and once again fall into the rut of pre war poverty. He must be taught at this stage a decent and fair method of expenditure. When the better living

societies were organised in the thirties a common question put by the villagers to the organisers of such societies was 'Where were you when our pockets were full? What is the use of your sermon when we are broken?' This is again the time when the pockets of the villagers are, comparatively speaking, more full, and if a precaution is not taken at this stage in the shape of a drive for the establishment of better living societies, the villagers shall spend their purchasing powers on unproductive items

### Some Problems

A controversy about the better living societies is 'Should not the function of the society be undertaken by the credit societies themselves firstly, because they have their common good fund and secondly, because it may be difficult to secure sufficient staff if co operative societies are multiplied unnecessarily in the villages?' The credit societies may no doubt undertake better living activities to a certain extent but if it is found that the members of the managing committee are likely to find the two fold duties too taxing, it shall be preferable to organise better living societies separately. These societies may be helped financially by means of a grant from the common good fund

Another objection about the better living society is, 'Why should it undertake such functions as removal of illiteracy, rural sanitation, medical relief and rural water supply which are really appropriate to the local and provincial authorities?' They should not, but we would go a long way in giving

effect to these reforms and improvements if instead of an official organisation there is some co-operative organisation to look into and supervise these works. The better living society can, and should stand for state activity with the help of co-operative organisation. The state should give financial help as well as make available the guidance and supervision of its expert staff

### Area of Operation

The better living society should not be preferably organised in isolated villages. It shall be better to select a compact area where a number of societies may be organised and as soon as possible a union of these societies. The union may lay down some of the common actions to be taken by the member societies. The union may also entertain appeals against the decisions of the member societies. The representation on the union should be proportional to the membership in the member-societies.

As regards the area of operation and membership of the primary better living societies, it shall be preferable to avoid admitting members who belong to parties not on good terms. In order that the member may have common customs and usages the members should, in the first instance, come from the same religion, caste or tribe. If the society is confined to the same caste, its area of operation may extend to a number of villages. In any case the area of operation should be such that the members shall come in contact with each other and shall be in a position to watch whether certain rules of the society are being violated by any member (s)

### Compulsion and Fines

It is also necessary that, like any other co-operative society, the better living society should not be organised through compulsion by the government employees or by the landlords. In the beginning they should not frame radical rules otherwise they shall be easily violated on account of their extreme character. The rules should be such as shall make a slow change in the habits and customs of the members and which shall be easy to observe. As regards the penalty to be inflicted, it is controversial whether every breach of the rules of the society should mean a fine. It is true that no infringement of the rules should be overlooked and in case a fine is imposed, it should be rigidly realised. The levying of fines should not be biassed and frequent, otherwise the villagers shall lose their interest in the society. It shall pay more to bring about a social compulsion so that breaches shall be less in number. In certain cases it may be desirable to let off the offender after a proper scolding or after he has offered his regrets and asked for the pardon of the members of the committee. For a proper infliction of penalties, the managing committee should have only efficient, keen and unbiased persons, who should be replaced or re-elected only at the general meetings.

### Fund

The funds of the better living society may be derived from such sources as (1) entrance fee, (2) annual membership contribution (3) financial grant from the government and out of the common good fund of the credit societies, (4) do-

nations and (5) fines The society should not take loans nor accept deposits

### State Aid

So far as the state is concerned, it may offer two facilities viz, a financial grant and supply of organisational and supervisory ability in the form of co-operation by the staff of the various development departments It may be also noted that sometimes a state legislation banishing an evil uneconomic social custom may be helpful In due course when the better living society has sufficiently progressed and has for its membership almost the whole of the village, the state may delegate to it the powers of the Panchayat under the Panchayat Act as was successfully experimented upon in the Benares District (U P, India) some years ago



## CHAPTER VIII

### CO-OPERATIVE CREDIT SOCIETIES

Banks may be organised for profits, for public service or for mutual service. A co-operative credit association belongs to the last category. It is the means to help the small man. It secures money for him by a shorter route and hence at a lower rate of interest. It helps to collect loanable funds which would otherwise lie idle in dark corners as also additional funds for no material security. Open book-keeping and the scope for thorough scrutiny and watch in respect of the purpose and use of the credit granted guarantees a productive and economic expenditure of the loan which otherwise cannot be expected of the small and ignorant man.

Like every other co-operative, the credit association is also a mutual society formed composed and governed by working people on the principle of equality. The mutual service is rendered by accumulating the savings of members on easy terms of interest and repayment. The surplus of the business is either placed to reserves or distributed among the depositors, borrowers and shareholders or is spent on cultural and co-operative endeavour for the benefit of the working people. The association also uses the joint responsibility of the members as a security for loans from outside sources.

The credit associations may be divided into

two broad catageries, viz., (a) the credit society which collects loanable funds from its individual members and the co-operative banks, and uses them to give loans to the individual members, and (b) the co-operative banks which have the credit and non-credit societies of the region and sometimes even individuals, for their members and help to extend the services of the modern financial machinery to sections of population hitherto outside the scope of banking

### Credit Society

In the credit society the shares are placed at a low figure and are payable in instalments. The share capital is not fixed. It increases and decreases with membership. The share capital contributed by the members is generally withdrawable at notice. Whenever a new member is enlisted, an initiation fee is sometimes charged which is not paid back. The credit society generally gives character-credit to the members at a moderate rate of interest and sometimes extends this facility even to the non-members. The credit society shows preference to loan applications for smaller amounts so that the weaker may be helped first. Before the loan is granted it is preferable to have the purpose scrutinised. In general there should be maintained a Haisiyat register which is revised periodically indicating the extent to which credit can be allowed to any member such that it shall be within the repaying capacity of the member. In some credit societies they also have a committee to watch the use to which the credit allowed is put, and to call back the loan if it is

being misused. The committee is also to secure the repayment of the loan promptly.

The credit society particularly that formed in a rural area is generally based on unlimited liability so that the members may automatically keep a watch on what other members are doing and also to provide a security for getting funds from outside agencies. In the urban areas the principle of limited liability may be followed either because the members are not likely to come in close contact of each other or because they are educated enough not to misuse the loan.

Of late the principle of unlimited liability as applied to the credit societies in the rural areas has been questioned partly on the basis of the progress made in certain countries where limited liability has been a rule or where it has been subsequently adopted openly or virtually and partly on account of the slow progress made in certain countries where unlimited liability has been observed strictly\*. However with a view to

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\*In 1947 at the XVth Registrar's Conference B. Rajendra Prasad said: "The unlimited liability of members and the facilities for enforcing their claims created a facile complacency and loans were advanced which did not fall strictly within the objects for which they could be advanced and hardly any check was exercised on the utilisation of the loan by the debtor who very often used it for non-productive purpose. The natural consequence was strict enforcement of the rules for realisation of the debt taking over of land in lieu of debt not only of the debtor but in many cases of others who had unwillingly assumed unlimited liability and had been too lazy to see to it that the debtor did not abuse the trust and thus throw their own liability arising out of their own impecuniousness on others. It sums the situation in India well."

provide an additional security both the limited and unlimited liabilities tend to be replaced by guaranteed liability under which the liability of a member is limited to a multiple of the share capital contributed by him.

### Co-operative Bank

In the case of the co-operative bank, it is questioned whether individuals should be allowed to become members of the bank or not. The answer is in the affirmative so far as the collection of more capital is concerned, although even in this respect it should be borne in mind that too much capital may not be desirable lest it may mean a drain on the bank by way of dividend. But individual membership should not mean that the member can get a loan from the bank. If it is difficult to make a rule to this effect, individual membership should not be allowed. Individual membership is also undesirable from the point of view of voting power which in the case of the co-operative bank is proportional to the number of shares. There are two ways out of this difficulty. Either the maximum number of shares that an individual may hold should be fixed, or the number of votes that may be exercised may be restricted.

Even in the case of the member-societies, if the voting power is proportional to the shares and if the societies are allowed to take up as many shares as they wish, it is possible that the bigger societies may weight the scale of democratic management. It is therefore suggested that the shares should be allotted in proportion to the number of members of the individual society.

Then each society shall have voting power proportional to the members represented by it, and this would be democratic

In the co-operative banks there is no membership fee. The share capital is not withdrawable but only transferable. In the short period it is fixed so that the membership cannot be increased with the same ease as in a credit society. The co-operative bank may however issue additional capital and thus make it possible to increase the membership. The principle of limited liability is generally followed. As regards loans the procedure described in the case of the credit societies applies to these banks also. It is controversial and in my opinion too much to load the banks with supervision audit and guidance of the societies, or to entrust to them the function of organising co-operative education. It does not however mean that the banks should not lend a helping hand in these directions.

In both the credit societies and the co-operative banks it is essential that the association should build up a material security in the form of a reserve fund and should make full efforts to build up as much of its own resources as possible. Consequently a major portion of the profits should be induced to leave their dividends in the association. Above all the management of the association ought to be in the hands of competent persons--persons who understand the principles of co-operation, who are just and who are moved by the spirit of service to others. In general, we find many types of credit societies. Of these three deserve special mention, viz, the Raiffeisen, the Schulze Deltsch

and the Luzzatti models. The details of these societies and their differences shall be dealt with in brief now.

### The Raiffeisen Society

Moved by the poverty of the peasants, Frederick William Raiffeisen, a burgomaster in the district of Rhineland, first started a society among the poorest farmers to purchase corn, potato and cattle ; but he gave it up later in favour of a credit society for the peasants to which he himself subscribed an initial fund of 6000 marks and which has become the chief model for credit societies organised all over the world

The object of a Raiffeisen society is "to improve the situation of its members both materially and morally, to take the necessary steps for the same, to obtain through the common guarantee the necessary capital for granting loans to members for the development of their business and their household, and to bring idle capital into productive use, for which purpose a savings banks will be attached to the society " It is thus clear that the society was also to undertake even non-credit operations Its activities need not be restricted to the receiving and giving of credit, nor can it be said that if a separate arrangement for non-credit activities is desirable from the point of view of organisation and economy, it should not be had in a region where a credit society exist. Raiffeisen did not want the credit societies to be merely single purpose societies It is however possible that on account of the difficulties of efficient management the society may not find it desirable to take on more than a few other activities.

Originally, in the Raiffeisen society there were no shares, nor was division of profit permitted. This for two reasons. The poor villagers could not be expected to contribute any amount by way of share capital before they got any financial help from the society. Secondly, Raiffeisen did not want the society to be worked in the interest of a few non borrowing share-holders. The Raiffeisen societies, however, had to issue share-capital after 1889, when the German government made it compulsory, but the share was valued at a very low figure (10-15 marks) and the dividend declared at the annual meetings never exceeded one penny per share.

It would be noted from the object of the society that Raiffeisen laid stress on the moral position of the members. The two main conditions for entry were that the member should be trustworthy, and should consent to do the work of the society gratuitously so as to inculcate the spirit of self-sacrifice. The area of operation of the society was restricted to a village having about a thousand inhabitants so that it would ensure full mutual knowledge of the activities of the members and their financial position. It was also considered to inspire the members to keep in view the prosperity of the whole village. But this does not mean that there should be one society for one village. If the village is too small to allow a proper organisation of the activities of the society, it would be desirable to form a society for more than one village.

The Raiffeisen society was to have unlimited

liability in order that the outsiders may be easily induced to lend money to the society and, secondly, to make the members more watchful and careful in regard to the credit provided and the use to which the loan is put. It presupposes that the members are fully aware of the ultimate consequence if such a society is liquidated. It is also presumed that if in the case of winding up of the society the assets of individual members are used up to pay the outstanding creditors of the society, the assets shall be valued at a fair price. If these conditions are no longer found to exist or if the executive of a society works recklessly under the wrong belief that unlimited liability shall automatically put matters right, then it would be better if the liability is suitably modified. Again, on the side of the suppliers of credit to the society, if it is found that they are prepared to advance funds on account of better management, or proper control by the state, or some form of guarantee by the state, or merely because the societies have shown success, then unlimited liability would lose its force. Either it would not be enforced or it would be allowed to be held by a person in a number of societies simultaneously. It is also likely that it may be replaced by limited liability or guaranteed liability.

However, in a Raiffeisen society a borrower is to furnish a surety and to convince the society of his honesty and of the fact that the use to which he shall put the loan shall enable him to repay the loan. The idea behind asking a surety or two from among the members of the society is to make one or two members take special interest



and keep a personal watch on how the loan is spent. The society has the option to recall the loan if it is being misused. The managing committee is to collect the instalments punctually on the due dates. Of course the instalments are of low value and run for a number of years say up to ten years. The loan carries a low rate of interest. The sureties provided by the borrowing members have to be replaced if their financial position deteriorates during the currency of the loan.

Because of the existence of unlimited liability it is only natural that the society should have the right to expel the member whom it distrusts.

All the members are to meet at least once a year. At the annual meeting members are elected to a Council of Supervision and a Committee of Management. It is also to inspect the accounts of the past year to settle the maximum amount that may be borrowed from outside sources and to fix the maximum credit that should be allowed to the different members of the society. It also fixes the rate of interest to be charged on loans. The surplus of the society was not to be distributed among the members but was to be allocated to an ordinary reserve fund and an indivisible reserve fund. The former is to be used for ordinary contingencies. The latter was to be deposited either with the government or with the central co-operative bank and in the case of liquidation was to remain with the central co-operative bank to be used later for the grant of a Foundation Fund to a newly organised society.

The Council of Supervision generally has five members. Its function is to scrutinise the loan application and to report on the membership applications. It also watches the use of the loan amount. The Committee of Management is to meet once a week to transact the regular business of the society.

All members including those on the Council and the Committee have to render honorary service. A small payment was, however, permitted by Raiffeisen for the accountant. Later an honorarium has also been allowed for the chairman and other directors of the credit societies. It must be noted that if emoluments are thus permitted, they should never be proportional to the profits or to the outstanding loans otherwise the individual interest of the receiver is likely to clash with the efficient and successful operation of the society. Thus, for example, in India receivers have asked the debtors not to pay back the loan amounts so that the total outstanding loan may not decrease and thus cause a decrease in their emoluments.

Another problem to be considered is that of the extent to which help should be taken of the state. The original Raiffeisen society was to be independent of the state. Later state help has been accepted though in general it is not demanded. But in any country where state aid or state control is permitted, it should not be allowed to take a form which will encourage the members to neglect their own duties and leave the successful organisation of the societies to the state officials. If the state aid takes the form of full control as in India,

the head of the co operative department should not be one who is unacquainted with the environment and the temperament of the persons to be served by the societies nor should he be one whose guidance and advice shall be looked upon as rules and orders

### Schulze Delitsch Society

Schulze Delitsch of Saxony saw the failure of state help to raise the standard of living of the workers and petty traders and attempted to substitute co operative for individualistic principles to organise capita<sup>l</sup>. As however the guild system was not yet dead and as the Germans of the time considered that sacrifice of isolation meant sacrifice of independence he began by forming associations of traders and associations where members were made to realise the importance and utility of co operative action

Unlike Raiffeisen Schulze demanded of his members prior self sacrifice and thrift. Each member had to pay an entrance fee and to purchase a share of sufficiently high value. He was however allowed to pay the sum by small instalments. Secondly though the character of each member was enquired into before he was admitted to membership the emphasis on honesty was not as great as in the Raiffeisen societies. Thirdly it was also not considered necessary to restrict the area of operation. Fourthly salaried staff was kept to carry on the business of the society. The members of the Committee of Management and the Board of Supervision were also paid in the form of fee for attendance. Fifthly there is no stipula-

tion for the repayment of the loan from the investment returns. Lastly, the profits need not be compulsorily carried to reserve divisible or indivisible, though in practice about 10% has been put to reserve.

Before a loan is granted, the financial position of the borrower and the security offered by him are carefully considered. Loans are given out against bonds, bills and mortgage, and generally two sureties are demanded from among the members of the society, excluding those on the Committee of Management and the Board of Supervision. The borrower is not required to declare the object of the loan but it is expected that the loan shall be used productively. The term of the loan is generally three to six months subject to a renewal for an equal period once or twice. The rate of interest may be as high as that charged by the private credit-suppliers for some but ultimately it should be reduced as far as possible. No credit is granted to the members of the Committee of Management during their term of office.

The general meeting, held at least once a year, elects three members to the Committee of Management. Members to a Board of Supervision are also elected. They control in some matters the action of the committee of Management. The Board deals with the applications for loans, and audits the accounts. The general meeting also disposes of the net profits. About ten percent of it is allocated to reserve and the rest is divided among the members according to the paid up

share capital, Though each member is allowed only one vote, voting by proxy is permitted

In the Schulze Delitsch societies of Germany the existence of dividends turned the members into dividend hunters who raised the rate of interest on loan and also the dividend on the shares to attract shareholders, but before long they realised that dividend-hunting is not the real aim. Consequently, the rate of interest has been reduced, the dividend limited and the value of shares reduced by calling only a portion of the share capital

There is a change even in regard to the method of business as well. The model rule for security against loans is that the security may be furnished by the provision of one or more sureties, by the pledging of 'sound claims' or by the pledging of good state - or other securities enjoying a quotation on the German Exchange. Besides, the society discounts bills for members, opens current account and transacts business in stocks and shares for the members on commission. Cash credit accounts are also maintained for the members which may be renewed or closed every six months.

Though originally the Schulze societies were formed with unlimited liability, limited liability has been since adopted in the case of the urban credit societies. This cuts across the necessity for mutual knowledge among the members. Also, the business of the urban banks is more technical than personal. So the greater the membership, the greater shall be the safety of the

society and the business transacted by it; hence lesser will be the proportion of the management cost and the likelihood of the staff being ill-paid and inefficient. So long as the society is managed efficiently, the membership and the area of operation should not be limited.

But the difficulty arises in respect of the general meetings. In the first instance it may be difficult to find a meeting place where the large number of members may be accommodated. What is more important, a large gathering does not allow full and orderly deliberation. There would be no trouble if members do not turn up. But that cannot be encouraged. Active interest by the members is essential and some definite measures ought to be taken to rouse the interest of the members and to increase their attendance at the general meetings if they are found to become sleeping members. Full participation by every member, calm and quiet deliberation as also the necessity to avoid unnecessary and short-sighted sentimental interference with the management call for the invention of a new method in the form of divisional meetings. The area of operation may be divided into suitable sections. A meeting may be held in each section and identical resolutions and amendments may be discussed. Any member of the society may attend and take part in all the sectional meetings but he may vote only once and generally at the meeting held in his section. The votes of all the meetings may be added to find the view of the majority of the voters. Another way would be to

substitute a delegate meeting for the general meeting. Delegates may be elected by sectional groups and these delegates may meet the directors with all the privileges of the general meeting except that to dissolve the society.

However Schulze societies have kept out the poor and have not stood for moral and educational benefits. Mutual help is not fostered and thrift is encouraged by greater money returns. It is more individualistic. It does not subordinate the personal interest to the fraternal interest. It encourages the belief 'Cooperate when you are poor for self-preservation' after some material means have been accumulated let the selfish motive reign supreme and throw self-sacrifice to the winds.

### **The Luzzatti Society**

As professor of economics at a technical institute at Milan Luigi Luzzatti was moved by the high rate of interest charged by the Jews and first experimented with friendly societies during 1864-65. In 1866 he opened the Popolare Banca at Milan with a capital of 700 Lire which had its principles as a synthesis of those of the Raiffeisen and Schulze societies.

In the Luzzatti societies only the honest and the reliable are to be admitted. Each member has to take at least one share payable in ten instalments. The value of the share is neither too low as in the Raiffeisen societies nor too high as in the Schulze societies and does not exceed fifty lire. The principle of 'one man one vote' is observed. Limited liability was adopted and still continues. The reasons for limited liability were non-

recognition of unlimited liability by the Italian law of the time, and the prevalent distrust and difficulty of mutual knowledge among the urban populace. Gratuitous service is expected of the members. Only the president, the accountant and the cashier are to be paid on account of continuous and heavy work. In the larger banks all the office bearers are paid a salary and even a share in the profits.

The members assemble once a year to elect as many members as can spare time for the council of management (*Consiglio*) about 15–40 members for a loan committee (*Comitato di Sconto*) members for the risk committee (*Comitato dei Rischi*) and three members for a board of appeal (*Prebiumi*) to the first. The first manages the business of the society. The second examines and reports on the applications for loan. It also prepares a register (*Castellato*) showing the financial position and the credit to be allowed to the each member. The *Castellato* is revised every three months. The third watches the use of credit allowed and secures prompt repayment. The fourth hears appeals of the clients against decisions of bank officers. A fifth body, the *Sindaci*, of three to five members is appointed every year by the *Consiglio* to meet at least once a week to supervise the daily business of the society.

The General meeting also disposes off the profits. Although the Italian law calls for the allocation of only 5% of the profits to an indispensable reserve in the Luzzatti societies it is not uncommon to place 20–25% of profits to reserve which is not absorbed in the working capital. In



many societies it has risen above the share capital. A portion of the profits is also used to reduce the rate of interest on loans taken by the members i.e. the borrowers also share the profits and in proportion to their borrowings. Though a dividend is paid on the share capital, dividend hunting is not encouraged. In fact the law itself has fixed a maximum rate of dividend at five percent.

Intending member borrowers must have paid half their share value and must offer material guarantees, which may be in the form of bonds, stocks, acceptances, and sometimes, even mortgage, if that would save the property of a member passing to an usurer. The borrower must also pay up any debt incurred outside the society so that he may not have to serve two credit-masters. The rate of interests is low and the term of the loan is generally three months subject to renewal. The loan may not be granted by the society in cash but in the form of an acceptance of a bill drawn by the borrower on the society which may then be discounted by the borrower with other banks. If funds are limited, applications for small loans are preferred.

The society may also grant a loan of honour without interest to a "poor but honest non-member". It may help many to better their material position.

Besides, the society also maintains cash-credit transactions with the members, accepts savings bank deposits, discounts bills (including treasury bills) and warrants of payment, and holds articles in safe custody for the members.

To provide themselves with money, the Luzzatti societies depend on shares, bills of exchange and promissory notes. Help may also come from the state in the form of a subsidy and the state may also undertake to pay interest on behalf of the borrowers to the extent of two to two-and-a-half percent. In any case there are special facilities accorded to the credit societies in respect of agricultural credit. And it must be said to the credit of the Italian societies that there exists a friendly relation between the urban and the rural societies. Even the Luzzatti societies finance those in the countryside.

To sum up Luzzatti societies are more democratic in administration, prefer to give small loans and are not aggressive to the country banks. Unlike the original Schulze societies these have unlimited liability and make use of bills to grant loans.

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## CHAPTER IX

### LAND MORTGAGE BANKS

An ordinary co-operative credit society should not engage itself in long-term finances because the deposits and loans secured are for short term. Also in a credit society if sometimes a large sum becomes overdue it may be desirable to pass it to an institution which can wait for a longer period. These two reasons point to the necessity for organising what have come to be known as land mortgage banks.

So far as the primary societies are concerned it is not essential to organise credit societies and land mortgage banks separately. Credit for long term and otherwise may be granted by two different sections of the same society. Rather the paucity of personal and the necessity for multi purpose societies call for such arrangement.

Personally, I think it is not essential even to have different organisations at the provincial stage. The same provincial cooperative bank can float short-term and long term loans.

#### Membership

The membership of a land mortgage bank may include non borrowing and even distantly situated persons. There are two reasons for this. Firstly if the membership is limited to the poor it shall not be possible to offer a sufficient security or attraction for long-term funds from outside.

Secondly, the management of the bank calls for a knowledge of finance, law and economics, and this may not be available with the poor\*. It is, however, desirable that the membership should not be made compulsory for every land-owner in the area of operation of the bank. Of course, no credit is to be allowed to one who is not a member. Also, membership should not be understood to mean that as an applicant for loan the member shall be accommodated to the full extent of his demands.

As regards the share capital, one view has been that, as in the original Landschaften of Germany, there should be no shares so that the necessity to declare a dividend may not arise. But it is argued that the would-be-borrower must furnish some capital and should have an interest in the land mortgage bank. To satisfy these requirements, it should be enough if the borrower has purchased at least one share of the society. It is, however, possible that, in a certain country, there may be a fixed ratio between the share capital and the credit allowed to any member. This may be justified on two grounds. Firstly, it shall restrict the extent to which credit may be allowed to any member. Secondly, the bank may be obtaining its funds from a central institution, and the credit that it can secure bears a ratio to the share

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\*In Madras the land mortgage banks with non-borrowing members are found to be more strict in their management.

*Incidentally, it means that a person need not cease to be a member when he has repaid his debt to the society*

capital. Thus if a bank cannot get from a central land mortgage bank funds exceeding twenty times the share capital, it may demand of its member the maintenance of the same ratio. But if the bank can raise funds otherwise, this may be done.

It may be argued that a person may borrow money from an outside agency, use it to purchase a share of a land mortgage bank, then secure a loan and pay off the outside agency out of it. Should this happen, it would mean that money worth the value of a share has been deducted from the loan advanced by the bank. In other words, that a certain sum has been advanced by the bank without any share capital. But such argument is not quite relevant because the loan advanced has a security in the mortgage offered. Though, therefore, there may not be any objection to funds being secured by the bank from outside, the above is no reason for justifying attempt to dry up possible source of finance to the borrower from outside agencies. Besides the attempt cannot be successful. If the service of the society is more efficient then the borrower would themselves flock to it.

### Liability

Unlimited liability was previously preferred in the land mortgage banks. This kept away the well-to-do people and in order to win their support the emphasis changed to guaranteed liability. In India these banks are organised on the basis of limited liability, and we may stick to it if and where it is found to attract valuable elements "which would bring sufficient share-capital".

### Granting Loans

The loan granted may be on the basis of both the value of land and the repaying capacity. The latter can be judged in the short period, but for long period purposes it is not suitable as it depends on a number of factors over which the borrower has no control. We cannot also be sure of the productivity of land over a long period of about twenty years. The valuation of land on the basis of the market value is also undesirable as it will be subject to fluctuation due to various factors, such as speculation and capitalisation of current net income. Yet this is a more practical basis. As a safeguard the valuation may be revised from time to time, and the borrower may be liable to give additional security if asked for

Some consider that once the security is accepted, the bank accepts the risks connected with the fluctuations in the value of the security. It should therefore not be obligatory for the borrower to furnish additional security. Yes but because the society is a cooperative enterprise, there does not seem to be any harm if additional security may be demanded. Of course any such clause is not to be worked technically and blindly.

It is the cooperative spirit again that justifies the practice of asking for two sureties so that a personal watch may be kept on the borrower.

As regards the ratio of the debt to the value of the security, one half would be a very safe limit, two-thirds would be preferable but three fourths would be rather excessive. In India it is generally seventy to seventy-five per cent,

In granting loans, account must be taken of the character of the borrower. A person, having both security and repaying capacity, may still prove a defaulter. To some extent this possibility gets considered when it is laid down that every member must already have been a member of a primary credit society for some time.

The period of the loan should be neither too short nor too long. If it is ten or fifteen years, it may not be possible to repay the loan on account of insufficiency of the return from the use made of the loan. If it is a long period like forty years, as in Germany, the loan may not be repaid in the lifetime of the borrower. A period of twenty to twenty-five years should be suitable.

The repayment of the loan must not be left to the borrower. The instalments and the due dates for the same must be fixed by the land mortgage bank. This shall not inconvenience the borrower at the same time the bank shall be in a position to build a sinking fund and repay its debenture and bondholders at the right time.

It is not essential that the loan must be repaid from the very first year. Insistence on such repayment has not infrequently led to defaults. The start should be based on when a return from the use to be made by the borrower would begin.

As regards the rate of interest, in Germany no margin of profit has been left between the borrowing and lending rates of interest. But a fair return must be allowed to capital and to the workers for efficiency. Although, therefore, there should be no hankering after profit, a certain margin of surplus

is necessary. Sometimes, as happens in India, the minimum difference between borrowing and lending rates are laid down by the Provincial Govt. This difference may be unduly high. Thus a margin of three percent is laid down in Madras with the result that although the province land mortgage bank succeeded in raising funds at  $2\frac{1}{2}\%$ , the lending rate of the primary banks is 6 per cent. In such circumstances the Provincial Government should reduce the margin. The lending rates should be about 3—4 percent. The Agricultural Finance Sub-Committee recommended a final lending rate of  $4\%$ .

The loan may be granted for productive purpose and even repayment of old debt, but the loan must not be mostly or mainly for the repayment of old debt\*. The use of the loan money for the repayment of the old debt shall be productive indirectly if the new rate of interest is lower, if the repayment is in instalments spread over a long period of time, and if the new arrangement shall mean less dishonesty and less exploitation of the borrower. Before, however, old debts are thus repaid, it may in certain cases be desirable to investigate whether in view of the past payment by the borrower, dishonesty by the money-lender and the present economic condition of the debtor, the outstanding debt should be scaled down. The debts may be scaled down by mutual negotiation through conciliation boards of the land mortgage banks or compulsorily through boards established by the

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\*In 1937, it is estimated that 98 $\frac{6}{10}\%$  of mortgage loans was for the repayment of old debts.



State. It may be noted that both should not be allowed to work simultaneously in a region ; also, if boards are established by the State, they may work in co-operation with the land mortgage banks. Loans may be arranged by the boards from a land mortgage bank to repay the reduced debt. Personally I would prefer compulsory scaling down of debt through boards established by the state

In the case of loans for productive purpose, they may not necessarily be for land improvement. Any long-term paying proposition may be considered. it may relate to irrigation, reclamation, electrification, rural industries or land improvement. If the holdings be small and scattered, it may sometimes be possible to make consolidation of holding a condition for the grant of the loan, or those with consolidate holdings may be given a preference

It has been suggested that there should be a security to the loan given by the land mortgage bank in the form of insurance policy. Should the borrower die, the successors shall not be bothered about the payment of the balance of the debt. The responsibility shall be that of the insurance company. The premium may be collected by the bank for the insurance company. The policy may be for the whole amount of the loan, in which case the successor may even get some money after paying the balance due to the bank. Alternatively the policy may be for dismortgaging, so that the insurance company shall be responsible only for the balance of unpaid loan. In so far as it promotes thrift, the suggestion may be adopted where possible. Two difficulties may

he mentioned The farmer may not be insurance-minded and he may be unable to pay the loan instalment as well as the premium simultaneously

Before passing on to the question of securing funds, it must be mentioned that the policy of not issuing small loans is not necessarily always right. If the members are likely to need or to borrow in small amounts, long-term loans in small amounts should be advanced. The delay in advancing loans should be minimised. Any difficulty regarding the applicant's title to land may preferably be dealt with by adopting the system of a summary enquiry followed by a public notice requiring any contestant to raise objections within a stipulated time. ✓

### ✓ Surplus Funds

Sometimes the mortgage banks come to have plethora of funds. Of late this has been the situation in India. It has been partly due to early repayments and partly due to lack of demand for loans. The cultivators are reluctant to take loans to make improvements in land. Two reasons may be given. They are not sure that they shall enjoy the improvements. Also they do not have the necessary supplies facilities and schemes to make improvements. Hence it is desirable that the various development departments should combine with mortgage banks to provide the villagers with schemes and funds. It may also be said that mortgage loans be allowed for road making, irrigation, housing and even for capital equipment for multipurpose societies, provided the equipments would be offered as security, as already indicated above.

## Raising Funds.

As regards funds, these may be raised by accepting deposits, by taking advances from local authorities and by issuing debentures. It may be mentioned that deposits should be discouraged. The funds of the bank are expected to be locked up for a long period. It may, therefore, be difficult to repay the short period deposits. If the public is doubtful about the success of the bank,\* the deposits may be low and the debentures may not sell. The state can no doubt guarantee the repayment of the debentures, but it shall be preferable that a central

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\*This is so in India, particularly because of the sad progress of the co operative movement during the last forty years. The public may be suspicious even in regard to the central organisations. Therefore the Agricultural Finance Sub-committee recommended the organisation of Agricultural Credit Corporations and Farm Credit Administration but are not known to have recommended the formation of Farm Mortgage Corporation and Farm Land Banks as in U. S. A. They have however recommended liberal state aid. It may be mentioned that the bonds of the FLB did not sell until the state guaranteed principal and interest. In addition the bonds are tax-exempt. Certain other concessions have also been given at times e.g., suspension of instalment payments and bearing of the resultant loss by the State. Incidentally, though initially the FMC and FLB were to be ultimately self-administrative units, four out of seven directors of FLB are nominated by the Governor of the FCA, who in turn is nominated by the Federal Government.

land mortgage bank or the central banking institution\* of the country may guarantee the debentures against undue fluctuations on account of changing political situation A minimum limit of time must be set before which no debentures shall be redeemed and a maximum limit, when every debenture shall be redeemed. If there is no minimum limit, long term investors may not invest in these debentures because of the probability of early repayment

### State-aid

Like every other society the land mortgage banks shall also have to look to the State for help. Firstly the bank can be given certain rights Thus the bank officers may be given the title of State officers so that they may be in a position to get

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\*The Reserve Bank of India, which is the central banking institution in India tries to show that the ease of floating debentures or raising funds depends on the good will of the mortgage bank and on the way the loan is under written. Hence it has not been prepared to accept the debentures of the mortgage bank as security under section 17. But it forgets that this concession by the Reserve Bank is calculated to be essential for goodwill and successful underwriting of the mortgage debentures. Failing Reserve Bank a guarantee by the Provincial Government would speed up the floating of debentures. The Reserve Bank has not even given such an advice to the Provincial Governments. Recently the Madras Government gave indications of better wisdom. At the seventh conference of Land Mortgage Banks in Madras it was revealed that 'when the Government undertook to guarantee the debentures of the Central Land Mortgage Bank, the one reason which weighed most with the Government was that, otherwise, the Bank would have to pay higher rates of interest'. One wishes the Reserve Bank and other Provincial Government could be as wise.

full information about the property offered for mortgage speedily. The bank may have a first charge on the produce of the land and other movable goods. In case the member is also a member of a primary society, the first charge may be of the primary society and the second charge of the bank. The bank may also have the right to foreclose on a property without having to go to the courts, and collect arrears of instalment as arrears of land revenue.

As already mentioned, the bank may be allowed to call for all details from the title-holders merely by a public notice, and be given the legal authority to ask the creditors to take payments in person.

Secondly the State can reduce the delay on account of red tape due to the co-operative department being a bridge to be crossed before a loan is sanctioned.

Thirdly, the State can guarantee the payment of the principal and interest on the debentures floated by the bank. Whether this is always desirable has already been discussed. However, the debentures and bonds can even be declared to be trustee securities.

Fourthly, the State can grant the bank exemption from stamp duties and registration fees. It may be desirable to make the mortgage bonds tax free.

✓ Fifthly, the State can make available the services of its surveyors and other valuation experts to the land mortgage bank.

✓ Sixthly, the State can even grant subventions

and subsidies to help the struggling banks \*

Lastly, it is true that land mortgage banks can become an important source of long-term finance both in the rural and urban areas. In the urban areas they may be formed to grant loans to individuals, as also to public bodies such as municipalities and district boards for the construction of hospitals, roads, etc (like the Credit Fonciers of France). But the problem of urban credit can be solved by other methods as well. However, two great hurdles to the progress of land mortgage societies must be stressed at the end. Firstly, the system of keeping the record of rights and maintaining it up to date may be defective and inefficient. If so, the record would be inaccurate. Secondly, the income of the agriculturist may be irregular and indeterminate on account of uncertainty of the harvest. In this case the pre-requisite shall be improvement of the condition of agriculture through proper attention to say, irrigation, crop-planning, marketing, etc

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\*In 1933 the U S Government temporarily reduced the rate of interest on mortgage loans and later even suspended the instalments for the repayment of principal. The federal treasury was to bear the loss caused to the Farm Land Banks on account of these steps. On account of these and other Government assistance (e.g., purchase of mortgage-bonds by the Government) the State secured a share in the administration of the Federal Land Banks. Though at their inception the F L B s were to be passed to the ownership and control of the farmer-borrowers the State has acquired an indirect control through their nominee viz., the Governor of the Federal Farm Mortgage Corporation. The Governor nominates four out of the seven directors of each of the F L B s. However, likewise a provincial Government in India can be allowed to nominate some directors to the Board of Management.

## CHAPTER X CO-OPERATIVE HOUSING

The compelling obligations of humanity demand the setting up of certain minimum standard for the quantum and the quality of dwelling accommodation and the intervention by the public authority wherever the standard is not being achieved independently<sup>1</sup>. The minimum conditions have to be with respect to the habitable space, ventilation and lighting, sanitation, privacy, absence of overcrowding, cubic space, proportion of open space on the plot etc. Attention has also to be paid to the general arrangement of the houses in the colony as well as to the distribution of the gardens and parks, markets schools and offices, roads and heavy traffic-routes<sup>2</sup>.

(1) New houses or better building activities are required at the present moment for (i) providing employment to the war displaced and demobilised persons, (ii) replacements (iii) providing houses for the normal growth of the population as also for (iv) the new distribution of population. The population of the urban areas is increasing fast as is evident from the following statistics —

			Population in Lakhs	
			1941	1945
Calcutta	...	...	24.9	31.5
Bombay			14.9	25.2
Madras	...		7.7	12.5
Cawnpore	..		4.4	8.7

The growth of the number of houses much less the per capita floor-space—has not kept pace with the growth of the population. The number of persons per house was 5 in 1931 and 5.7 in 1941.

(2) In other words, attention has to be paid to town-planning,

The question arises—how are we to provide dwellings built to satisfy these conditions at rents which men and women can afford to pay? In other words, (1) who shall build the houses, (2) who shall finance the construction, (3) who shall enforce the conditions mentioned in the proceeding paragraph, and (4) who shall ensure that men and women occupy them—and not overcrowd them—at rents which are a fair percentage<sup>3</sup> of their income?

In dealing with these questions, a distinction may be made between urban and rural housing and the urban housing may be further subdivided into industrial housing and general housing. In the rural areas the villages suffer from red tape development. The houses are generally dilapidated, defective and even in-sanitary. They lack ventilation as well as space. They have low roofs and hence the cubic space is small. The landlord demands *nazrana* and the villager has to find cash to please the landlord and to pay for the door, the bamboo and the tiles. Though the villager has time, he finds it hard and even less important to spend money on this item. A village house planning authority is a first requisite in this regard. Alternatively, the power may be exercised by the local bodies.<sup>4</sup> It has

(3) The rent for government-quarters is charged at 10% of the salary. The Housing Sub Committee of the National Planning Committee (India) put it at  $8\frac{1}{2}\%$  i.e. one-twelfth of the income, but not more than 4% of the capital cost.

(4) In the report of the Rural Housing Sub committee of U.K. it was recommended that a voluntary joint-committee for each country should be charged with finding ways and means of improving housing conditions. As a prerequisite a thorough and comprehensive rural housing survey was to be made. In India the local Board and the village Panchayats can undertake a similar responsibility.



to demolish the village houses and plan them out again. But who would finance the construction and who would get the new houses constructed ?<sup>5</sup>

So far as finance is concerned a considerable part shall have to be provided by the state.<sup>6</sup> The villager should not be expected to meet the expenditure - he may however provide his and his family's labour free of wages provided the construction is undertaken in the off-season. The villager may be made to pay the rent plus an element of the ownership-cost of the house over a long period of thirty to forty years. Financial help from the State may come direct or through the local bodies or through the provincial cooperative organisations. In order to reduce the expenses, research may be made to evolve and to use new materials which are locally available and are cheaper to produce.<sup>7</sup>

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(5) The fifteenth Cooperative Registrars' Conference held at Madras in April 1947, resolved that the problem of rural housing should be solved on cooperative basis

(6) Even in foreign countries rural housing schemes have made progress only after substantial help has been given by the State. In Scandinavia and Finland it takes the form of direct loans and grants. In some countries like France and Holland credit is provided through cooperative credit institutions. In Sweden and Denmark public loans on special terms are arranged to enable agricultural labourers to obtain a small one family house and a piece of land. (vide Urban and Rural Housing, League of Nations)

(7) The Public Works Department, Punjab have evolved a new material, compressed mud, which is as strong as ordinary brick and yet cheaper to manufacture. According to them if, the village offers free labour and if local material is used, a house with a room, a kitchen and a verandah may cost only Rs 150/- (Vide Report of the Cooperative Planning Committee, 1947, Page 127)

The construction of the houses may be organised by Public Works Departments, the local bodies or the cooperative societies. In India we shall be reducing the problem of rural un-employment if labour cooperative societies are organised and the construction work is entrusted to them. Where possible, the work may be supervised by the Public Works Department. In order to secure the building materials at lower rates, a Federated cooperative society should prove better than the Public Works Department.<sup>5</sup>

### Urban Housing

In the urban areas the problem of housing the industrial workers and the poor, and of clearing the slums and the chawls is the most important. In most European countries the provision of adequate housing for the people is recognised as the respon-

(8) The Cooperative Planning Committee also wrote It can be tackled cooperatively on a large scale only after the standard of income of the rural population has risen.

(9) On July 8, 1946, in Bombay Gandhiji disclosed what Dr Sushila Nayar and Dr Dinshaw Mehta had found in and around the chawls. The drain pipes were choked. The drains overhead were leaking to the discomfort of those living under them. There was great scarcity of water. Flush latrines were worse than useless. The open refuse tins emitted a foul smell. The overcrowding in the chawls was appalling.

Where in a single room one finds two brother labourers with their families, grown-up sisters, cousins, adult relatives, one can well imagine the resultant overcrowding, the physical and moral deterioration, and the disruption of the social life. No wonder if commonsense makes men live alone (the proportion of females to males in industrial and urban areas is decreasing), nay, live an unnatural life in which prostitution and liquor play an alarming role.

sibility of the Government and local bodies. In India too the sub-committee of the National Planning Committee considered housing to be a public utility service of national importance and expressed the view that the state will have to take an increasing share in providing, regulating and controlling the housing service as a whole. The state shall have to enforce the minimum standard in regard to equipment and amenities. It must also bring about the development of industries like brick-making, iron and steel cement wood-work paint and varnishes and furnishing and equipment. Besides, allocation, priorities and limitation orders shall have to be taken recourse to in order to fight the bottlenecks.

In order to pay speedy attention to this problem, it is preferable to constitute a regional (or Provincial) Housing Board to promote the provision of increased housing accommodation conforming to the approved standards,<sup>10</sup> to advise the

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(10) The standards involve the question of the cubic space and floor-space per tenement meant for one family. These affect the cost of construction. The greater the space the greater shall be the cost and if the rent be limited the lower shall be the return on the capital invested. The profit-minded persons are apt to put the standard at a low level. Thus although the National Planning Committee put it at 100 sq ft per person i.e. about 500 sq ft per family, the Bombay Housing Board prescribed a carpet area of 320 sq ft per tenement. The Bombay Rent Enquiry Committee and the Textile Labour Enquiry Committee had put it at 180 sq ft only. The Industrial Housing Sub-committee had put the minimum floor area at 240 sq ft with two rooms well ventilated with a verandah a court yard a kitchen and a lavatory. Personally I agree with the items of the house named by the I H S but I feel that the carpet area should in no case be less than 324 sq ft to allow for 2 rooms each 12 ft x 12 ft and one kitchen 6 ft x 6 ft.

state in regard to speeding up of the process, the developement of new land, remodelling of houses, clearance of slums, removal of industries from congested areas. The Board may also be called upon to suggest simplified and standardised building materials, even undertake research on the most desirable type of workers dwellings" for the urban and the rural areas, to discover cheaper building materials and advise about the regulation of supply and distribution of the same.

The Housing Board can enforce the conditions mentioned in the opening paragraph of this chapter. But if the houses are to be built by private enterprise, particularly the employer, they may object to the standard set in regard to the floor-space and the cubic space, if they are afraid that the rent secured by them shall not mean a return comparable to the return from alternative investments. The capitalists realise the restricted nature of rent and are therefore not likely to agree to any responsibility being placed on them for the provision of houses for their employees.

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It may also be mentioned that if the civic sense of the labourers is not high enough to keep the flush latrine clean let the flushing system be such that the latrine shall be flushed as soon as a man leaves his seat on the pot.

In general however, it may be noted that "if the house is to serve its purpose as a social centre, it must conform to certain standards regarding site, type, ventilation lighting, heating waste disposal water supply etc. But these standards will vary according to a number of factors like climatic conditions availability of land, traditions etc. and will have to be fixed to suit local conditions" (The Bombay Plan)

(11) In India some work in this direction has been done by the Indian Concrete Association.

In India a Housing Board has been established by the Bombay Government and the millowners have pleaded that the cost of construction exclusive of the cost of land would come to over Rs 6000/- per tenement and that the industry will be forced to borrow funds which shall entail greater cost. They contend that housing is the responsibility of the State which should therefore undertake the construction. The Bombay Planners had estimated the cost of construction at Rs 800/- and prices cannot be supposed to have gone up eightfold. Besides, the responsibility for housing does rest on the employers. Ultimately, no doubt, it is that of the State, and it may be expected to make land available on lease to the employers as also give financial aid.<sup>12</sup> Should the employers

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(12) Before the war in U.S.A a National Housing Authority, which was charged with enforcing the minimum standards of housing, encouraged execution of approved projects by making provision for cheap long term loans and even annual subsidy for low rent houses constructed for low income groups provided local Governments also helped.

In India also the Central Government (Sep 1946) proposed to establish a National Industrial Housing Board responsible to it with a full time Chairman and representatives of the Central and Provincial Governments the employers and the employees. In due course Regional Housing Boards were to be established by the Provincial Governments. These R H B s were to coordinate regional schemes before submission to the N I H B.

The N I H B was to enjoy maximum liberty of action possible and was to be responsible for finance, machinery, coordination of schemes release of supplies and handling of orders for standardised mass produced fittings.

fail in their duties<sup>13</sup>, let a levy be charged and let some other arrangement be made for the construc-

The Government of India proposed to have a ten year housing scheme with a target of two million houses and was discussing with the Provincial Governments details of the scheme including the problem of minimum standards and standardisation of designs

So far as the U. P. Government is concerned, it also proposed (May, 1946) to undertake a house building programme for the poor. Model houses were to be constructed in towns and villages. These were to be given to those who have not enough money to invest on easy instalment basis and to the poor absolutely free. A Committee of experts was to be appointed to examine all aspects of the problem. A scheme which was to be given the highest priority, was to be tried in some selected areas. The Government had also appointed Sjt. B. B. Singh to study and report on labour housing problem in Cawnpore, Hatbras, Shikohabad, Firozabad, Saharanpur, Mirzapur, Gorakhpur, Lucknow and other industrial areas of the Province. It may be noted that even in Cawnpore there are only two settlements for the workers and a third is under construction. For further work the cooperative agency would be better because the State once built quarters to be let on the hire purchase system and some of them went to non-industrial workers. The State should organise cooperative housing society and give priority allotment of bricks, cement bags and iron materials.

(13) In 1946-47 the Central Government made a provision of Rs. 25 crores for the grant of a subsidy equal to one-eighth of the cost of construction but not more than Rs. 203/- per house for any scheme approved by the provincial Government provided an equal subsidy is granted by the latter. Thus the state aid would come to Rs. 400 i.e. half of the cost (Rs. 800) estimated by the Bombay planners. This offer was open to any local authority, authorities and factory owners but in his next budget speech the Finance Member disclosed that this inducement did not have any great effect. The offer still

tion of the houses<sup>14</sup> It is in regard to the alternative arrangement that cooperative housing comes to the fore<sup>15</sup>

But apart from the problem of industrial housing there is also acutely felt in the urban areas a shortage of houses for the general public. Private enterprisers purchase land at high prices and construct houses in order to rent them out at exorbitant rates. No matter what the rent restriction orders passed by the State, the House-

exists. The additional inducement that may be given is that the provincial governments may give facilities for acquiring land. *It seems that faith should not be reposed in the capitalist and the factory owner and that the cooperative departments must make intense publicity and organisation drive for having societies.*

(14) If the employer makes a provision for the housing of his workers it is possible that if he is profit-minded he may exploit the workers to a greater extent. He would then be the master of both bread and home and can rob the worker of both the job and the residence unless the state lays down restrictions on the right of eviction.

Besides as appears to be the case in England & Wales the private enterprise also is less interested in constructing houses for the working classes. Compared to 1919 the percentage rise in the number of houses in 1934 was as follows -

	Working Classes	Others	All Houses
England	19	56	37
Wales	28	85	47

(15) The Royal Commission on Labour and the Bombay Textile Labour Enquiry Committee had also favoured the provision of industrial housing on a cooperative basis. That housing societies for industrial workers can be organised successfully is proved by the societies existing in Ahmedabad and Bandra (Bombay Suburban District).

owner can always find a way round. Both in regard to the construction of and collective renting of houses for its members a cooperative society is a powerful cure. The cooperative society can secure for the members, the economies of collective purchase of buildings building materials, efficient management and loans on low rates of interest. Besides unlike any Improvement Trust or some local authority a society can attempt to develop the amenities of the neighbourhood to create a common social life, to secure sanitary and aesthetic advantages and to regulate the architecture and the orientation of the buildings<sup>16</sup>

(16) The local authorities may fail to enforce the standard. This is proved by the existing conditions of the chawls chaks and slums. If a cooperative housing society were to undertake housing activities these shall be for its own members. It can be easily imagined that the society (managed by the members themselves) cannot lower the standard in the case of houses to be occupied by the members. It would appear then that a cooperative housing society is better than private enterprise.

The Cooperative Planning Committee (1947) have put the argument in a slightly different form. The town planning authority has to deal with a large number of individuals. Its work will be greatly facilitated if these individuals form themselves into groups with which it can deal.

The Committee has also said. Houses for lower income families are rarely built to order and when they are built for purely commercial purposes very little trouble is generally taken to discover and satisfy the real needs of the prospective occupiers.

Besides the cooperative society would enable each occupier to become the owner of the tenement in due course. Where the occupiers are not in a position to



## Cooperative Housing Societies

Cooperative housing began outside India in the early part of the nineteenth century. On the advent of the industrial revolution, the housing of the working classes who flocked to the towns, became an acute problem. Very high rents had to be paid for most inadequate and unsatisfactory accommodation. The question naturally arose in the minds of some enthusiasts whether they could not join hands and help each other in erecting a small cottage for each family. In answer to this, the cooperative housing societies came into existence.

### Their Object

The object of a cooperative housing society may be either to enable the members to secure the acquire this right, they shall definitely enjoy a greater fixity of tenure and more stable and equitable rent. Consequently they are likely to take a keener interest in the better upkeep of the house.

It may also be mentioned that according to the statistics collected in 1937 in 27 countries there were then 21474 housing societies with a membership of about 8.4 millions. So the cooperative housing movement was already of significant importance. The details are as follows -

Continent	No of Countries	No of housing societies	No of members (000's)
America	1	10 073	5,002
Asia	2	377	18
Europe	22	10,747	3,261
Oceania	2	277	127
Total	27	21,474	8,408

ownership of a house or apartment, or to provide residential facility at a fair rent. If the society undertakes to enable the members to secure ownership, it may provide funds for the purchase of land and to meet the cost of construction.<sup>17</sup> Alternatively, the society may purchase land in common and allot plots to the members. At the same time it may provide funds. The society may assist the members with technical advice and even provide facilities for bulk purchase of the raw materials.

With a view to avoid the passage of the houses into the hands of the capitalists, it may be preferable to give the plots to the members on long term lease and guarantee perpetuity of dwelling. If the member wants to alienate it before or after erection, the society shall have the first claim to buy it.<sup>18</sup> Alternatively it may transfer ownership with the stipulation mentioned above.

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(17) These societies are given a distinct name viz., Building (or Building and Loan) Societies. Really, such societies with only the financing function are really special credit societies and if one were to rule them out of "co-operative housing," one might define a housing society as 'composed of a number of person who agree to acquire' own and manage properties in order that people may be well-housed at a reasonable expense which they can afford to pay' (Housing Societies by Reginald Brown). Whatever may be said against the building societies, the fact remains that the greatest percentage of the housing societies comprises building societies. In 1937, out of 21474 societies with a membership of about 48 millions, there were 11315 building societies with a membership of 74 millions approximately.

(18) Such Societies are generally called Tenant Ownership Societies

It is also possible that the society may purchase land in common, erect the buildings in common and give them out to the members on the hire-purchase system. In this case, the members shall be required to pay the rent plus a fraction of the capital cost<sup>19</sup>

In the Scandinavian countries there is a federal structure for the housing societies. A central wholesale society arranges for land, finance and construction of the buildings. It also engages in producing some of the raw materials. After the houses have been constructed, each house is placed in charge of a local society which arranges payment of the cost of construction over a period of twenty to twenty-five years. Some of the houses are rented, and some sold. A unique feature of the Scandinavian societies is that apartments are sold and not complete houses. Thus there may be ten owners, each owning two or three rooms in the same building. That is also a feature of houses in America. Societies which provide for residential facilities may either erect buildings of their own<sup>20</sup> or may hire out a building from a private owner for a long term of years.<sup>21</sup>

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(19) So far as the poor and the lower middle classes are concerned, they cannot afford to pay high building costs and make houses themselves.

(20) Such societies are known as Tenant Copartnership Societies,

(21) These societies are given the name of Tenants Societies

### Membership

The membership of a cooperative housing society is generally comprised of the dwellers. In certain countries the owners of the buildings are not always the residents of the buildings. There is thus a percentage of non-dwellers on the membership of the society and this is considered to act as a spur to further extension of housing.

### Liability

The liability of the members is limited to the share-value and as is usual in cooperative societies, the shares cannot be sold for profit. The system of one man one vote is generally observed except in America, where in about 25% of the housing societies voting is proportional to the shares held.

In the case of loans to the members for purchase of land or for the construction of a building the property of the member is accepted as is mortgage. Generally both the land and the building are mortgaged.

### Rent and Sub-letting

Where the cooperative society rents out buildings, the rent may be partly met by the state, as is the case in the Scandinavian countries. There a percentage of the rent is paid by the State in the case of large-sized families with small means: the government share is proportional to the size of the family

Sub-letting is generally disallowed, special sub-letting for profit. However, the Board of

Directors may permit short-period sub-letting to non-members at a profit. In some cases such profits are limited by the Society. In other cases only 5-6% of such profit accrues to the members and the rest accrues to the society.

### Raising Finance

The main difficulty in a housing society is that of initial capital. In Germany, where the housing societies have fared best, the initial capital has been provided in the form of twenty years' loans without interest by the municipalities and the State. The legislation of 1889 permitted this facility if the houses constructed are used for residence and neither for sale, nor for renting them out to make profit. Grants of land have also been made by the state on the condition that the ownership shall be allowed to remain with the society and that the property will be used for residence only. It is the same story in every other Western country.

In India it is high time that the public authorities, which have lands at their disposal, should give them preferably to cooperative societies at concession rates. They should not be moved by the profit motive. It results in the sale of land by auction and consequently land passes to the capitalists<sup>22</sup>. Besides, the State, and failing it, the land-mortgage banks and insurance companies should be allowed to invest their fund in the housing societies. Where there may be a number of housing

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(22) The House Panel created for the Bombay City includes a representative of the Bombay Provincial Co-operative Institute

societies, a central housing society may be formed and bonds guaranteed by the state or local authority may be issued by it. In countries where we have federations of cooperative housing societies, building bonds have been issued and loans have been raised by central institutions from public and private sources

### Distribution of Surplus

Like every other cooperative society a housing society also is likely to have a surplus left at the end of the year. The surplus is to be distributed in proportion to the payments made by the members. A difficulty sometimes arises with regard to the balance in the sinking fund. How much of the fund should go to any member when he leaves the society? The problem can be solved if every year the increments in the sinking fund are distributed to the existing member in proportion to the payments made by each. Since the sinking fund can be cashed only after a long period, certificates of equal value may be cashed by the society when a member withdraws or it may be passed at face value to the new comer.<sup>23</sup>

In some cases the housing facility is also provided by consumer cooperatives. Here the control is vested not only in the dwellers but also in the non-dweller members of the society. There may, however, be a separate housing department which is operated by the tenant members for control and administration.

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<sup>23</sup> (23) In 1945 the Bombay City Cooperative Housing Conference also considered a resolution to this effect.

The Building Societies in England and the cooperative Apartments in America should be distinguished from the cooperative housing societies. The Building Societies resemble a cooperative society only in two respects. Firstly, it makes no speculative profit. Secondly, its capital, both share capital and deposits, is withdrawable at short notice. The Cooperative Apartments in America have nothing to do with the cooperative movement. They are constructed by capitalists and each is intended to be sold to any person no matter whether the purchaser wants to occupy it or rent it out for profit.

### State Help

In India tenant co-partnership and ownership societies are still utopian. It had been so even in the western countries if the local and central governments had not given profuse help. In spite of better education and more cooperative propaganda, the poor and the lower middle class persons do not have money enough to build a house for themselves. State help is highly desirable in India in the following directions —

(a) *Acquisition of Land* ;—Priorities and concessional rates should be allowed by the local authorities to the societies. Where necessary, the Land Acquisition Acts may be used to secure sites for an applicant-society.

(b) *Priority* ;—Since building materials such as bricks, cement, bars and other iron materials are scarce, the State and its local authorities should give the highest priority to the demands from cooperative housing societies.

(c) *Financial Help* —The State should grant aid and loans to the society at low rates of interest. It should also allow Land mortgage banks and insurance companies to invest their funds in housing societies. Where possible, the State should meet a part of the rent in the case of large-sized families with small means.

(d) *Taxation* —The local tax should be levied at half rates. So far as the income-tax is concerned, the law should be so framed that the housing society would be free from the tax.

(e) *Cooperative Rules* —The contribution to the sinking fund may be allowed to be made at a lower rate after the fund equals the capital sunk by the society.

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## CHAPTER XI

### CO OPERATIVE INSURANCE

#### Why Insurance ?

Much economic distress follows in the wake of unorganised poverty which permits large numbers of the unprovided and the ill provided to enter into the arena of life's struggle. The ills can be cured. No matter who the people by organised co operative effort their production can be improved the marketing of their produce and labour can be made cheaper and better regulated. Yes but we must prevent the ills too for prevention is better than cure.

For prevention insurance is a remedy. Co operatives generally tackle the present and the near future insurance provides for the future. Co operatives improve the resources insurance stores them up. Co operative thrift slowly builds up provision for the future insurance immediately creates an estate and gives that provision through foresight and pre vision.

But insurance whatever be the meaning attached to it commonly, is also based on the co operative motto each for all and all for each. A common pool is created due to the contributions of all policy holders and this is available for the assistance of those who are exposed to the great economic catastrophe of the untimely death of the breadwinner to the blight of old age or to unforeseen personal injuries and financial losses.

Insurance is no doubt provided to some extent by the co-operatives when out of the surplus saving, a sum is set aside to be spent for the grant of funeral benefits, maternity grants, unemployment pay, contribution to provident fund and even for pension to the employees and members. But there may be raised two objections to the universal adoption of this system. One, such funds are meagre and contingent, and cannot suffice to guarantee against all social risks. If there be little surplus for some years, the funds shall be weaned. Two, in so far as these allocations are made out of surplus, in the consumers' co-operatives, it is of the nature of a tax on consumption whose incidence varies directly as the size of the family. Since the members of the co-operatives are drawn from the lower and the poorer sections, it does not seem desirable to tax consumption and the size of the family.

The second argument is not very apt. If poverty and the size of the family are inversely related, and if greater the poverty, lesser is the quantum of purchase, then the incidence would be greater on the families which are comparatively richer and, hence, smaller in size. Also the allocation is made out of the surplus accruing at the end of the year. This surplus would in all probability not accrue otherwise. It accrues because of the co-operative membership. It is rather wiser than unjust to leave a portion of the surplus for future benefits. If it be accepted that the greater the poverty, more numerous are the misfortunes, the benefits shall be distributed more to the poor. In view, however, of the fact that the surplus is meagre and con-

tingent, and also because the membership may not be large enough to ensure a wider distribution of the risks covered, distinct and separate arrangements for insurance are desirable.

### Why Co-operative Insurance ?

But why should insurance be arranged for on co-operative basis at all? This question is of the same form as "Why co-operative activity at all?" which has already been answered. Still to examine the question in the light of experience in the field of insurance, it may first be pointed out that in one sense insurance means that yearly collections should cover the yearly expenditure. The collections are in the form of premiums and interest. The investment — particularly as premiums The expenditure is incurred on account of (1) claims and bonuses (2) commission, management and advertisement and (3) profit. To reduce the premiums, the expenditure should decrease. Now to reduce claims<sup>1</sup>, better actuarial data and calculations are needed. To minimise the expense under the second group, unfair competition and damage due to greater risk on account of remote and inefficient contact, supervision and control have to be paid attention to. To reduce the profits the profit motive has to be curbed.

In 1945, in the 'Oriental', which is the best Indian life assurance concern, the expenditure on account of the last two

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1 Bonus is paid to policyholders out of profits. So it should not decrease but for grounds of economy the cudgel falls on this item early.

groups was about 40 p c of the premium income. In general, the expense ratio, i e., the percentage ratio of the cost of commission and management to the premium income has been about one-third—nearly double of what it is for the non-Indian concerns operating in India<sup>2</sup>. A high expense ratio is one evil of private enterprise insurance.

Secondly, the private companies clamour for reduction in commission and similar expenses, and are apt to jump to decisions for suspension of bonus and discontinuation of certain types of policies etc when the business is on the decline. But they seldom think about suspension of dividend, suspension of increment to staff salaries and fixing a ceiling to the chief's pay. Nor are they apt to care about waste on account of appointment of too many agents<sup>3</sup>, rebating, rate-cutting, planting procurers, over anxiety to book business, charging a high rate of interest on loans taken against policies, keeping the policy-holders ignorant and ill-informed about their rights and responsibilities etc.

So private enterprise is apt to be inefficient, in regard to both the second and the third group.

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2 The expense ratio for recent years are as follows —

	1940	1941	1942	1943	1944	1945
Indian companies	28.9	27.4	26.7	27.9	31.2	32.2
Non-Indian companies	16.6	15.6	17.8	16.0	18.6	19.6

3 Relative to the Indian population, the number of insurance agents is not excessive. It is hardly one per 4000. But relative to the number of policy-holders there is overcrowding. During 1942—43 it increased from about fiftythree thousands to about a lac i e. it nearly doubled.

and also to have no consideration for the policy holders and the agents. This is true in the non-agricultural field. So far as agricultural risks are concerned, they really ignore it on account of lack of actuarial data, greater uncertainty and irregularity which characterise agriculture, and greater difficulty of contact and control on account of their being localised in the towns and cities.

State insurance also tends to become centralised and bureaucratic. The Government responsibility is very soon substituted for that of the manager. It is true that social security and insurance schemes are becoming popular. These may succeed in respect of state and industrial employees; but the prospects are dark so far as the agriculturists are concerned for reasons already mentioned in the previous paragraph. Even if it did, these schemes are only to ensure a minimum requisite. People who become insurance minded want to insure for more. Also, they can be made insurance minded. Security schemes do not concern these two aspects. Something more is required. Can nationalisation of insurance provide for these efficiently? It can, but it is subject to the irresponsibility and inefficiency of management. The experience of state insurance is not encouraging. In U.K. the postal insurance scheme has failed. In New Zealand the progress has been slower compared to that of the private companies. The officers have preferred static conditions, have not taken quick decisions and have failed to guess in which directions improvements should be made. There has been absence of elasticity and healthy competition. The output of competent agents

who popularise and sell insurance has fallen, and new schemes suited to changing tastes and conditions are not forthcoming

It may, therefore, be concluded that to keep up the efficiency of state insurance activity, the regional and local arrangements must be active and in healthy competition, or there must co-exist non-state insurance activity. A co-operative structure would be suited for the first, and because private capitalistic insurance activity becomes undesirable, cooperative insurance activity would be preferable under the second. In both cases, application of cooperative principles to insurance, i.e. cooperative insurance is desirable. This is true not only for non agricultural risks but also for agricultural risks\*, in fact more in the case of the latter due to the necessity for close local supervision and control of the policy-holder and the insured object.

### Method of Co-operative Insurance

We must now consider how insurance can be promoted on the co-operative basis. There are two important ways. Firstly, co-operative members

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4 Agricultural insurance is important not only because it shall guarantee farmers against losses due to disasters to their property, the fruits of their labour and themselves but also because it makes for efficient working of the credit system

Yet there are certain agricultural risks against which it is not easy to insure e.g., drought, floods, various animal diseases, cryptogamic diseases, insects or animal pests etc. For these the government alone can make provision in the shape of relief funds which should, however, preferably be administered through co-operative units,

may take a group insurance policy or "make collective terms with some powerful capitalist insurance company which, in consideration of their numbers, may be counted upon to quote them lower premium than to the general public", because in both cases large scale under-writing and mass administration lower the expenses of the company. Under group insurance medical examination is done away with and this makes additional economy possible.

Secondly distinct cooperative societies may be formed to provide insurance facilities like the private commercial insurance companies.

### **Collective Agreements**

Wherever people are organised in associations powerfully, the associations can bargain with some insurance companies and get lower rates in return for the agreement that all members, who take out an insurance policy, shall insure with that company. This is the first step to collective distribution of the insurance service and voluntary indirect mutual sharing of risks. The association may be a trade union or a cooperative association or union.

### **Group Insurance**

But collective bargaining can materialise only when there is a powerful organisation with a very large membership. The possibility for this is not so great as that of group insurance, provided it is allowed in the country<sup>5</sup>. Wherever there may be successful cooperatives<sup>6</sup> they can take out a

5 Group insurance is not allowed in India at present

6 In the western countries group insurance policies are taken out by the capitalist employers as well.

policy for all the members and pay the premiums out of the profits. The premium may be proportional to the total dealing of all the members with the cooperative. Similarly whenever a member dies, the compensation granted may be proportional to his yearly dealing with the society. The yearly dealing may be taken at the average yearly dealing for a number of years. The compensation may be differentiated according to the type of dependents left: it may be more where the male member dies. The compensation can also be subject to a maximum limit.

### Insurance Proper

Although collective bargaining and group insurance mean better insurance conditions, they do not secure to the insured the profits of the business.<sup>7</sup> The end can be secured by forming cooperative insurance societies i.e. by organising cooperative societies for undertaking various types of insurance business. The cooperative principles would demand that every policyholder must be a member of the society. But it may be—and it is so in England—that insurance cooperatives may serve non-member policyholders also. In that case the non-member would only get the bonuses that the society may declare on the policy. As these bonuses are declared only in the case of life policies, persons and institutions which bring profits to the society by their non-life insurance<sup>8</sup> policies

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7. Strictly speaking if group insurance is with some Cooperative insurance society, some profits of the business are received back as bonus.

8. Insurance is mainly of two types life assurance, and accident (including fire) assurance. A life assurance



shall not get the profits. Even then the non-members would be providing themselves with insurance at lower costs on account of lower premiums due to two factors. Firstly the expenses of commission and management are less being a co-operative society it enjoys exemption from stamp duty, registration and court fees and concession in regard to income tax. Secondly as the responsibility is apt to be carried down to the local units which have intimate local knowledge, the error in the valuation of the risk and in the valuation of the

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policy becomes due when the life insured survives a certain period or by death. The accident assurance policy becomes due when the accident materialises. In the former case

the full amount of the life policy is payable. In the case of accidents only the value of the loss is paid. If a person takes out say four life policies from four life offices then all shall pay the full amount. In the case of accident however all the four would have shared the value of the loss (only) in proportion to the accident policies taken out from them. Thus if each of four accident policies was for Rs 10 000 and if the value of the loss was Rs 10 000 each insurer would pay Rs 2500.

Various insurance societies distribute a portion of their profits among the life-policyholders in proportion to the value of the policies. This is called bonus. It is not necessary that a bonus be granted on all policies. A life policy may be with profits or without profits. One finds these two types both in the capitalistic insurance companies as well as in insurance co-operatives. The premium in the case of policies with profits is more than those for policies without profits and a bonus is generally granted only on the with profits—policies. Really speaking the bonus should be granted on both the policies and there should be no difference in the premiums.

losses is kept within narrow limits.<sup>9</sup>

### Centralisation *versus* Federation

A reference may be made at this stage to the case where there is one single cooperative insurance society working through its branches or other co-operative societies. In England they have one Co-operative Insurance Society owned jointly by the Co-operative Wholesale Society and the Scottish Co-operatives Wholesale Society. Individuals directly deal with it for life and motor insurance while co-operatives have dealt with it in regard to business insurance and the group insurance of members. The profit on life insurance is distributed among the policyholders and the rest is distributed among the co-operative societies in proportion to the premiums paid by them. It might be said that so far as motor insurance policies are concerned they do not get back any profits. Also co-operative societies which are not members of the Wholesale Societies get the bonus at half the rate at which members get it. Thus here too there is an element of wrongly distributed net surplus (profit),<sup>10</sup>

Even so there is sufficient distributive justice

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9 This is rather optimistic. Suppose a society works in Bombay through agents spread all over India and each policy holder is made a member of the society. Membership can only mean filling up the form and paying the membership fee. Under conditions of individualism such member policy holders may not mind the interest of the society and may deceive it unless they are under the sway of some local co-operative.

10 The Bombay co-operative Insurance Society has no share capital.

and the discrimination against the non-members may be justified to encourage the progress of co-operation. It may however be argued by some that the distributive justice shall be more if there were no shareholders and share capital. I would agree to this if a co-operative insurance society can progress without some initial capital. This is possible. But where this is apt to create trouble capital may be raised but the return on that capital may be limited. But should the capital be raised from a few persons and should these persons be allowed to manage the society? Yes, provided these persons are the higher units of the co-operative structure<sup>11</sup>. Still I would prefer to have regional co-operative insurance societies which may in due course combine to form federations and unions.

In order that the co-operative insurance may serve the man with small means, it should be prepared to issue policies for small sums (say, upto Rs 100)<sup>12</sup> and without medical examination. Also, as far as possible arrangements should be made for the collection of the premium locally, better still at the house of the insured. Where regular employees are concerned, they may be allowed to have the

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11 As is the case with C I S (England) which is owned by the C W S and the S C W S

12 Under a recent amendment to the Insurance Act in India a policy for less than Rs 1000 cannot be issued nor can insurance policies be accepted as collateral security by co-operative banks against loans amounting to less than Rs 1000

amount of the premium cut from their pay<sup>13</sup> and even drawn upon their provident fund savings, if any, to pay the premiums. Besides, the co-operative societies may be encouraged to take out group insurance policies for their members. But it does not appear desirable to make it legally obligatory<sup>14</sup> on co-operative societies to take out group insurance policies, particularly if they have been moribund or working at a loss.

Insurance cooperatives should be prepared to cover business risks of small cooperative societies. Here, if nowhere else, it would not be undesirable to make it obligatory for co-ops to take out business risk policies with some insurance co-operative.

For every possible economy, it is desirable that there should be full mutual relationship and help between each insurance co-operative and other co-operatives. Thus, where possible, banking arrangements may be made with co-operative banks, and reinsurance<sup>15</sup> may be done with other insurance co-operatives. Similarly, the co-operative banks may

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13 This is not allowed in India so far. The rules made by the provincial governments under the Payment of Wages Act allow direct cuts from pay only in the case of the Postal Insurance Scheme. The Provident Fund saving cannot be used for paying premiums.

14 The All India Co-operative Insurance Societies Conference demanded such a legal obligation for credit co-operatives in 1946.

15 Whenever an insurance concern feels that the insurance amount of a policy is beyond what it considers proper and safe to retain, it reassures a portion of it with some other insurance concern.

offer special facilities to the insurance societies with regard to the rate of commission on collection, rate of exchange etc

A reference has been made above to reinsurance, which enables the society to share the risk with another society. Another way of sharing the risks mutually would be to form a central organisation, say a federation. Each society may pay, say half of the premium collected to the federation which in turn may make good to them half of their outgoings-in-compensation.

### Efficiency

The economies and the success of co-operative insurance depend on at least two factors viz efficiency and investment. Whatever be the advantages on account of the goodwill of the co-operative movement each insurance society has to compete with capitalistic insurance offices and for successful competition it must attain a comparable efficiency. If the losses on account of risks and expenses of management are to be diminished, strict control and supervision and a judicious handling of the risk insured shall be necessary. If it works through agents, they must be carefully selected, given a proper training and if possible guaranteed a minimum monthly earning. To some extent the efficiency of the agents may be increased by offering a prize for the best quality business. The number of agents should not be increased unduly<sup>16</sup> and blindly. It shall be prefer-

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16 Unduly large number and low earnings have been responsible for the inefficiency of the agents of capitalistic insurance concerns. It also explains why the agent is tempted to pay a portion of his commission to the prospec-

able to enlist influential co operative societies in different areas as agents. If honorary service and organisation be not possible it is better to secure efficiency by paying commission to those who procure insurance custom.

### Investments

As regards investment the co operative ideal prevents investment of funds in industrial enterprises which compete with the co operative movement. Compared to the freedom enjoyed in this respect by the capitalistic concerns this is a serious drawback and curtails the return on investments. Yet another drawback may arise on account of dual state control. Thus in India certain restrictions on investment are provided by the Insurance Act and further restrictions are imposed by the various Co operative Acts. If the control of the Insurance Act be sufficient it shall be desirable to remove those due to the Co operative Act. There need not be any objection to a control which is imposed on co operative as well as non cooperative insurance agencies. But if in a country insurance has still to be developed and if co operative insurance is to be preferred the statutory control should not be too rigid and the co operatives should be helped in other ways. Thus the co operative life offices may be required to pay the Income Tax at a lower rate than the joint stock insurance companies. Strictly speaking co operatives are in general exempt from Income Tax but sometimes

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tive policy holder. This still happens although it is legally prohibited in India and is apt to happen everywhere under similar conditions.

as in India, the state wrongly taxes the income derived from interest on securities and dividends. So far as insurance societies are concerned, they have to invest large funds technically called Life Funds—in securities, because of the very nature of their business and because of the legal provisions. Since whatever is earned belongs to the clients, it is not profit and should really not be taxed at all.

### Insurance and Housing Societies

However, insurance co-operatives as also any other insurance concern can give loans, and thus render financial assistance to housing societies. It would not be unusual if the state makes itself responsible for a part of the interest on such advances. In any case, it would be beneficial if the State guarantees the security of capital and a reasonable interest.) It would certainly be helpful if such investment could be treated as falling within the scope of approved securities in which a certain minimum is to be invested under insurance acts<sup>17</sup>. But this concession may not be desirable in so far as investment is made in housing societies which are new or which have not established a reputation. If, however, the minimum just referred to covers a very large portion of the investment the concession may be given in the case of investment made by insurance concerns<sup>18</sup> in co-operative housing societies.

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17 The All India Co-operative Insurance Societies Association has demanded both this and the state-guarantee of capital and interest.

18. Insurance concerns' includes both co-operative and capitalistic insurance institutions.

### Crop and Cattle Insurance

Two problems that deserve specific attention before the chapter is closed are (1) crop and cattle insurance, and (2) social security schemes. It is generally true that a farmer faces the contingency of crop failures due to unfavourable monsoon, hailstorms, floods etc., as also the probability of unforeseen depletion of his cattle wealth. In a predominantly agricultural country such losses assume great dimensions and it can justifiably be forcefully argued that insurance facilities in regard to these should be provided. As has already been said, for some of the losses relief funds should be provided by the State. Where insurance activities are organised, certain obstacles call for prior mention. Firstly, there may be—and this is true in India—no reliable actuarial tables and in some branches no adequate statistical data either. Secondly, rural insurance necessitates close local supervision of the policyholder and the insured object, and if this has to be paid for, the cost of insurance and hence, the rate of premium shall become unduly high. This is expected to be kept low because the policyholders are also the carriers of insurance and may be depended upon for sincere gratuitous service. But the difficulty may be that the policyholders do not realise this. Thirdly, the mentality of the peasantry itself counts.<sup>19</sup> It may be that they like an immediate and greater return than what they pay. Thus in the Bombay province, farmers whose cattle did not die felt that they had wasted

19. Strictly speaking, the mentality factor overlaps the second obstacle and in a way covers it.



their money by paying the premiums. Or they may not feel that insurance against possible losses is better than sudden and substantial losses. Fourthly medical facilities general condition of the cattle and the means of agriculture may be so deplorable and the purchasing power of the villagers so meagre that there may be greater possibility of frequent wholesale losses which insurance cannot provide for.

Where there is greater realisation of the need for insurance where the peasantry is educated where the quality and breed are better, where care is taken of the crop and the cattle, rural insurance co operatives have been successfully organised. Various European and American countries may be named where hail insurance co operatives fire insurance societies and livestock insurance societies have flourished and continue to progress. Some of the livestock insurance societies have successfully organised campaigns for better hygiene and prevention of dangerous contagious diseases<sup>20</sup>. Of

20 In India cattle insurance societies have failed in the past due to the general obstacles mentioned in the text above. Of recent there has again been some talk about cattle and famine relief through insurance co operatives.

Attempt is also being made to start co operative fire insurance societies but in all probability it shall be confined to urban areas.

At the seventh session of the Animal Husbandry Wing of the Board of Agriculture and Animal Husbandry in India (Dec 40) it was recommended that since cattle insurance was more or less unknown in India and sufficient data were not available for evolving a sound business system of insurance applicable to conditions in this country a committee consisting of actuaries cattle dairy husbandry

course state-aid has been desirable and has been received in various forms Recurring financial aid has been given Insurance losses up to certain limits have been guaranteed Free veterinary service has been made available But where the drawbacks mentioned in the last paragraph are present, it shall be preferable to remove them first

As a digression, since the revival of a cattle insurance movement on co-operative lines is more likely in India, some details of the same may be mentioned. Since a close supervision is necessary, the number of cattle insured by each society cannot be large In the absence of reliable and adequate data, insurance arrangements would be facilitated if insurance is limited to a few species. In order to avoid deception, the animal must be marked

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and insurance experts be appointed for formulating a scientific scheme of cattle insurance

The Co operative Planning Committee however, stood for collection of data (through the cooperative and Veterinary Departments) about the number of cattle in different villages number of owners, mortality, etc After the data are collected, the committee recommended the conducting of experiments by the provincial government in selected villages at own expense They would like to restrict the facilities to cooperative members Only bullocks cows and buffalos, between the age of 2 and 12 years are to be insured at rates covering loss in a normal year and the compensation to be two-thirds of the loss Simultaneously in these areas veterinary facilities are to be freely made available to prevent and cure cattle-diseases

As regards crop insurance, the committee mentions two pre-requisites, viz, statistical data and capacity of the peasant to bear the incidence of the cost Yet it has recommended experiments by the State

Personally I do not agree with the second recommendation

and valued at the time of insurance, which may not be accepted for all causes of loss. Insurance may be limited to loss on account of death due to certain causes only. As regards the premium, three possibilities suggest themselves. No premium may be charged but every time that a death occurs, a levy may be made on all to raise an amount sufficient to compensate the loser. Alternatively, a premium may be charged based on the value of the cattle and mortality-rates. Thirdly, the premium could be lowered if the members could accept the liability to pay an additional premium when the funds of the society prove inadequate to meet the situation. The three methods are very much like the unlimited liability, limited liability and guaranteed liability. Under the Indian conditions the second method appears more suitable.

### Social Security Schemes and Co-operation

Many governments are seriously thinking about social insurance and social security schemes. Still co-operative insurance and co-operation have scope to play important roles. Firstly, any social security means only compulsory establishment of a national minimum of insurance. What it does cannot be allowed to be the maximum insurance that may be provided for. In order that "incentive, opportunity and responsibility may not be stifled, it is essential that an individual should be free to provide more than the minimum, for himself and the family. For such voluntary action co-operation offers itself suitably. Secondly, social security schemes cannot be organised and worked successfully overnight. Time is required to prepare the ground. Meanwhile,

co-operative insurance can take the place of and even prepare the way for the establishment of compulsory social security systems. Thirdly, even where such systems have been established, co-operative institutions can take up local administrative functions.

## APPENDIX

### Multi purpose Cooperative Societies

✓ It is accepted on all hands that our development schemes ought to be based on cooperative principles. Collectivism will not help us. Some type of cooperative action is essential. This may be taken either through multi purpose cooperative societies or single purpose societies. ✓ Which of these two forms may be selected? This is a highly controversial question. Yet it is essential at this stage that we must know which one would help us more and to what extent particularly with reference to the rural areas.

In the various chapters of the book we have considered different types of societies in an isolated manner. But our needs are not likely to be served by the single purpose cooperative societies. Single purpose societies may be better suited for the urban areas due to concentration of the people there. But in the rural areas the societies are more likely to fail or make little progress if they touch only one aspect of the life of the cultivators. Credit alone cannot secure that close and continuous connection between the member and the society without which the real cooperative spirit would not be fostered. Non credit functions also ought to be undertaken by the primary credit societies.

#### Objections

The arguments advanced against the multi-purpose societies have been mainly three. One, it

shall mix up the accounts of the varied activities and thus conceal the true position of any one type of the activity. Two, the failure in one respect might entail the winding up of other useful activities. Three, since the operations would become complicated, a few intelligent individuals would come to control the society and this would be against the cooperative spirit. But these objections can be met. To a certain extent separate accounts can be maintained for the different activities. In the beginning the keeping of separate accounts may appear too much. If they are not maintained even then a rough idea of the position with regard to any activity should not be difficult to have. It is a stock-taking of the position with regard to the different activities is frequently done, the losses on account of any one activity are not likely to be so great as to necessitate the winding up of all activities of the society. The fear of the control of the society passing into the hands of a few, who might carry the society in non-cooperative directions, arises because cooperative education has been neglected so far : also because it is perhaps assumed that the single-purpose societies would be converted over-night into complicated multi-purpose societies.

### Old Views

Even the Reserve Bank of India, with whom the 'multi-purpose society' has been rather a slogan for long, made it clear that "it was not, of course, suggested that the existing credit societies everywhere should immediately assume all the functions mentioned above, but a steady extension should be secured in the scope of their activities, so as ul-

mately to bring the whole life of the cultivator within its ambit. Even so, it was not recommended that such societies should undertake any business involving an unusual degree of risk such as only specialised institutions with special skill could undertake, e.g., mortgage banking, cattle insurance, etc. Nor need some separate societies for specific objects, e.g., prevention of soil erosion, land reclamation, colonisation, irrigation, etc., be altogether precluded."

The Madras Committee on Cooperation also expressed a similar view. If societies expand their activities in the first instance even upto the limits laid down in their present byelaws, we believe that the full-fledged multi-purpose societies will be the next step in evolution."

### Cooperative Planning Committee

Recently the Cooperative Planning Committee (1946) also recommended that "as the supply of credit touches only one aspect of the life of the cultivator, the activities of the primary cooperative societies should be so extended as to cover the whole of his life. The primary credit society should, therefore, be reformed and reorganised so as to serve as a centre for the general economic development of its members." A perusal of the report gives an idea of the economic activities to be covered by the primary societies. It is not to be a joint village management, as suggested by Tarlok Singh, though experiments in this regard may be carried out in suitable areas. Nor is the primary society to undertake the functions of a fruit and

vegetable growing society, nor those of the anti-erosion and the milk society. The primary society is to manage the pasture land and to conserve fodder. They are to distribute the improved seeds made available by the Agriculture Department and the fertilisers as also to execute the schemes of the Forest Department for the establishment of the fuel plantations. The primary society is to arrange for the assembling and transport of the village produce to the marketing union established in the nearby wholesale *mandi*. The primary society will take a helping hand in crop-planning. It will encourage the members to grow more leguminous crops and to use green manure. It will also be entrusted with the fieldwork pertaining to canal and tubewell irrigation, such as distribution of water fixation of outlets repair and maintenance of channels and assessment and collection of water charges. The construction of minor irrigation works is also to be entrusted to the primary society. It will be the post office for state assistance for sinking wells. It will undertake store-business. Health and sanitation as well as better living activities are also to be the function of the primary societies. Insurance business among its members will also be promoted by the society. The list is not complete but it can be summarised by saying that the society is to undertake even technical work to improve the situation of its members both materially and morally.

### Registrars' Conference

It seems too much. Compared to this, the detailed functions emphasized by the XV Regis-



trar's Conference (1947) are better According to the Registrars, the agricultural primary cooperative society should, in particular,

- (a) finance crop production,
- (b) act as the agent for the sale of produce to the nearest cooperative marketing organisation
- (c) supply the farmer's simple needs for crop production like seed, cattle-feed, fertiliser and agricultural implements, and also consumer's goods like cloth, kerosene, salt and matches on indent basis or on the basis of established needs provided that such a society may be permitted by the Registrar to function on the system of outright purchase and sale to the extent of twice the paid-up share-capital where its size, financial strength and soundness of management permit,
- (d) serve as milk collecting station for the nearest dairy and as a centre for animal first-aid and maintenance of stud bulls,
- (e) serve as a centre for maintaining agricultural machinery for the joint use of the members, and
- (f) encourage subsidiary occupation for its members.

The Conference has done well by leaving out the technical functions. The provincial governments are creating panchayats in the rural areas and such functions as crop-planning, irrigation, fuel-plantation, management of pasture land and

conservation of fodder, which must be essentially and compulsorily taken up, may be left to be taken over by the panchayats,

The All India Cooperative Conference (1947) has also taken a similar view. It has not passed any formal resolution on the subject, but the president hinted at it when he said that "a marketing organisation is both a purchase and sale organisation" and that "an industrial society must be a production and sale society."

### World Tendency

The emphasis is that too many functions must not be tacked on to the object of the society. Wherever it has been tried, the results have been far from encouraging not only in this country but also in other countries—particularly in backward countries. Incidentally, the emphasis on the combination of 'financing' with 'supplies' and 'marketing' is to be found not only in India but in other countries too. At one time "cooperators believed that the credit bank, in as much as it met the most pressing evil, must come first. Now the feeling is that village reconstruction (i.e., non-credit activities for improving the conditions of rural life) must come first." After visiting a number of countries, Prof. C. R. Fay wrote before the World War II: "The writer has recently visited New Zealand, Germany, Sweden and Finland and the emphasis is everywhere on coordination, not indeed on the undifferentiated society, but on the association of finance with trade supplies and marketing... and on the association of trade supply with the marketing of grain and general produce."

### Post-Organisation Complacency

In India credit societies should first be made to supply essential agricultural and domestic requirements and act as agents for the sale of the produce to the nearest cooperative marketing organisation. This is justified from another consideration too. A great hurdle in the progress of the cooperative movement is the post-organisation complacency. We are enthusiastic to organise a new society, but once it is established, no one seems to be bothered about working it to success. We are office-thirsty and want to march on to fresh organisations. We work under sentiments and our loyalty to the cooperative society is loose and not firm. We have not come to believe in it firmly. This is because we have paid little attention to cooperative education, training and research which are fundamental requisites for the progress of cooperation in any country.